SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES AND EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 31, 1976 — Commission File Number 1-1401

PHILADELPHIA ELECTRIC COMPANY

(Exact name of registrant as specified in charter)

Pennsylvania	23-0970240
(State or other jurisdiction of incorporation or organization)	**(IRS Employer Identification Number)**
2301 Market Street, Philadelphia, Pa.	19101
(Address of principal executive offices)	**(Zip Code)**

(215) 841-4000
(Registrant's telephone number)

Securities Registered Pursuant to Section 12(b) of the Act:

Philadelphia Electric Company

First and Refunding Mortgage Bonds:

2⅞% Series due 1978	3¾% Series due 1988	7½% Series due 1999
11 % Series due 1980	5 % Series due 1989	7¾% Series due 2000
2¾% Series due 1981	6½% Series due 1993	11 % Series due 2000
3¼% Series due 1982	4½% Series due 1994	11⅝% Series due 2000
3⅛% Series due 1983	9 % Series due 1995	7⅜% Series due 2001
3⅛% Series due 1985	8¼% Series due 1996	9⅝% Series due 2002
4⅜% Series due 1986	6⅛% Series due 1997	8½% Series due 2004
4⅝% Series due 1987	7½% Series due 1998	9⅛% Series due 2006

Debentures:

12¾% Series due 1981

Preferred Stock—$100 par value

9.52% Series	7.80% Series	4.4% Series
9.50% Series	7.75% Series	4.3% Series
8.75% Series	7 % Series	3.8% Series
7.85% Series	4.68% Series	

Common Stock—no par value

69,306,565 shares outstanding at December 31, 1976

Philadelphia Electric Power Company (a wholly-owned subsidiary)

Sinking Fund Debentures:

4½% Series due 1995

Common Stock—$25 par value

984,000 shares outstanding at December 31, 1976

All Philadelphia Electric Company securities are registered on the New York and Philadelphia Stock Exchanges.

Philadelphia Electric Power Company 4½% Sinking Fund Debentures due 1995 are registered on the Philadelphia Stock Exchange.

Securities Registered Pursuant to Rule 12(g) of the Act:
NONE

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days. Yes √ No. _

PART I

Item 1. Business

The Company

Philadelphia Electric Company (the Company) is an operating utility which provides electric, gas and steam service to the public in southeastern Pennsylvania. Two subsidiaries own, and a third operates, the Conowingo Hydro-Electric Project, and one distribution subsidiary provides electric service to the public in certain areas of northeastern Maryland, adjacent to the Project.

The total area served by the Company and its subsidiaries covers 2,475 square miles with a population of about 3,900,000, including 1,950,000 in the City of Philadelphia. Approximately 95 percent of the electric service area and 60 percent of kilowatthour sales are in the suburbs around Philadelphia and northeastern Maryland. Natural gas service is supplied to a population of 1,800,000 in a 1,475 square mile area of southeastern Pennsylvania adjacent to Philadelphia. Steam service is supplied in the central and west Philadelphia areas.

The Company is subject to regulation by the Pennsylvania Public Utility Commission (PUC) as to rates, issuance of securities and certain other aspects of its operations, and by the Federal Power Commission (FPC) as to the licensing of the Company's Muddy Run Pumped Storage Project and as to wholesale and interstate electric rates pursuant to Parts I and II of the Federal Power Act. Specific operations of the Company are also subject to the jurisdiction of various other Federal, state, regional and local agencies, including the U.S. Nuclear Regulatory Commission (NRC), the U.S. Environmental Protection Agency (EPA), the Delaware River Basin Commission (DRBC), the Susquehanna River Basin Commission and the Pennsylvania Department of Environmental Resources (PDER). The Company's utility subsidiaries are subject to similar regulation, including the licensing of the Conowingo Hydro-Electric Project by the FPC under Part II of the Federal Power Act. Due to its ownership of subsidiary company stock, the Company is a holding company as defined by the Public Utility Holding Company Act of 1935. However, it is predominantly an operating company and, by filing an exemption statement annually, is exempt from all provisions of such Act, except Section 9(a)(2) relating to the acquisition of securities of a public utility company.

Environmental Regulations

Environmental controls at the Federal, state, regional and local levels are having an increasing impact on the Company's operations due to the cost of installation and operation of equipment required for compliance with such controls. Environmental considerations are contributing to delays in the Company's construction program and may impair its capability to meet future service demands.

Water. The Company has received National Pollutant Discharge Elimination System Permits as required under the Federal Water Pollution Control Act Amendments of 1972 for the discharge of effluents from its generating stations. Conditions of these permits could require the installation of closed-cycle cooling systems for several generating stations and the upgrading of waste water treatment systems (non-thermal discharges) at all stations. The Peach Bottom permit, as issued, would have required the Company to award contracts for and to commence construction of a closed-cycle cooling system almost immediately. Other provisions of the permit could adversely affect operation of the Peach Bottom Station. The Company has requested the EPA to establish alternative thermal limitations for each of its steam-electric plants, which, if granted, would result in requirements less costly than closed-cycle cooling systems.

The Company has requested and has been granted an adjudicatory hearing on certain provisions of most of the permits. Under EPA regulations, the granting of an adjudicatory hearing stays those provisions of a permit which are to be contested at the hearing.

Air. PDER regulations limiting sulfur dioxide (SO_2) emissions, and an implementation plan adopted by PDER pursuant to the Federal Clean Air Act require the Company to install emission control equipment in coal-fired units at Eddystone and Cromby with rated capacities aggregating 785 mw. The Company has constructed and is testing developmental particulate removal and SO_2 removal systems on Unit 1 at Eddy-

stone. If successful, these systems will be extended to a full program at Unit 1 and applied to Unit 2 at Eddystone and Unit 1 at Cromby and would be expected to remove 90 percent of all SO_2 and particulate emissions presently being discharged from the three units. The Company has executed consent orders with the PDER and the EPA requiring installation of the completed scrubber systems by March 1, 1978. However, continuing technical difficulties may delay completion of the systems to an extent not presently determinable. Pending completion of the systems, pursuant to the orders, the Company is permitted to operate the units at emission levels higher than those which would otherwise be permitted.

The following table shows the Company's cost estimates (included in the Company's capital expenditure estimates for 1977-81) for compliance with the above proposed environmental requirements. Such environmental expenditures amounted to $3.8 million in 1976.

	(Thousands)
Modifications to Circulating Water Systems:	
Peach Bottom Units 2 & 3	$ 4,400
Cromby Units 1 & 2	7,100
Barbadoes Units 3 & 4	3,900
Waste Water Treatment Systems:	
Southwark Station	2,300
Cromby Station	1,400
Chester Station	200
SO_2 and Particulate Emissions Scrubbers:	
Eddystone Units 1 & 2	44,600
Cromby Unit 1	24,400
	$88,300

The Company may be required to make substantial additional expenditures, in amounts not presently determinable, for pollution control equipment at its nuclear plants and for compliance with the Federal Water Pollution Control Act Amendments of 1972.

Rate Matters

On November 19, 1975 the Company filed with the PUC a two-part electric rate increase totaling $95 million per annum, or 9.9 percent, to take effect on January 21, 1976. On January 20, 1976 the PUC suspended both parts to July 21, 1976 and authorized an interim increase of $24.3 million per annum, or 2.5 percent, which went into effect February 6, 1976. On July 21, 1976 the PUC authorized an additional interim increase of $22.7 million per annum, or 2.3 percent, effective August 5, 1976. On October 13, 1976, the PUC established the existing interim rates which became effective on August 5, 1976 as temporary rates effective October 21, 1976. On February 3, 1977 the PUC adopted a final order allowing an additional $25 million per annum, which became effective March 1, 1977, for a total annual increase of $72 million. The Company also is entitled to recoupment for the period since October 21, 1976 and a recoupment plan will be filed with the PUC in the near future.

On July 29, 1976 the Company filed with the PUC a steam rate increase totaling $2.6 million per annum or 6.6 percent, to take effect September 27, 1976. On September 22, 1976 the PUC suspended the requested increase for a period of six months pending an investigation, but, as part of the order, allowed the Company to file an interim increase not to exceed $2 million, which became effective on September 30, 1976, subject to possible refund. On March 14, 1977 the PUC issued a final order granting the $2 million increase and disallowing the remaining $600,000.

On April 3, 1975 the Company filed with the PUC a gas rate increase, amounting to $14 million as subsequently revised, to become effective in two parts, primarily affecting larger commercial and industrial customers. The PUC permitted the first part, which increases annual revenue by $6.4 million, to go into effect on June 2, 1975. Of the remaining $7.6 million the PUC granted the Company approximately $2.8 million on November 22, 1976, which was recoverable from customers retroactively to March 2, 1976.

On January 11, 1977 the Company filed an appeal in Commonwealth Court on the basis that the rate of return on fair value allowed by the PUC is inadequate.

An Initial Decision by an FPC Administrative Law Judge on June 28, 1976 recommended new wholesale electric power rates to increase revenue from the Borough of Lansdale by approximately $2.2 million annually. This Initial Decision has been appealed to the FPC by the Borough of Lansdale and the FPC staff, and briefs have been filed by the parties.

The Company adds a State Tax Adjustment Surcharge to customers' bills to recover the cost of increases in certain state taxes, principally gross receipts taxes, under a general order of the PUC.

Since January 1, 1974 the Company has had in effect an electric fuel adjustment clause which reflects in customer billing, with a two-month lag, increases or decreases in the average cost per kwh of electricity generated by fossil fuels. Electric fuel adjustment revenue billed in 1976 was $215 million. For accounting purposes, fuel expense recoverable under the electric fuel adjustment clause is deferred until it is subsequently billed.

Through a gas fuel cost adjustment clause, the Company recovers from its customers the higher costs of all gas purchased from suppliers, and of alternate gas supplies such as the conversion of crude oil or naphtha and the purchase of liquefied natural gas. The amount of gas fuel adjustment revenue billed in 1976 was $49 million. Effective September 1, 1975 the PUC allowed a revised gas fuel cost adjustment clause to take effect, which reduces the lag between the time the higher expenses are incurred and the time they are recovered from the customers, and also provides for the annual adjustment of any difference between the total amount recovered under the clause and the recoverable expense incurred. A modification of the clause which became effective January 15, 1977 provides for the return to the customer, with interest, of any over-collections occurring during the year.

The Attorney General of the Commonwealth of Pennsylvania has filed a complaint before the PUC against the electric fuel adjustment clause, alleging that the clause is unreasonable in that it eliminates appropriate incentives for the purchase of fuel at the lowest possible price, that it fails to include the reductions in cost effected by nuclear power and that it improperly accounts for purchased power. The complaint also requests that the Company be ordered to refund retroactively any revenues collected in excess of amounts collectible under any modified fuel adjustment clause the Commission may order pursuant to the complaint. A customer of the Company has filed a complaint before the PUC challenging the fuel adjustment formula in the clause as well as the amounts charged by the Company thereunder. Hearings have been completed, briefs have been filed, and the matter is awaiting PUC decision. The Company has been advised by Morgan, Lewis & Bockius, its special counsel, that in its opinion the possibility that any refund will be required is remote. In the opinion of the Company, any refund of amounts collected thereunder required by modification of the clause would not be material.

The PUC is conducting an ongoing investigation of all electric fuel adjustment clauses in the state and the Attorney General's complaint proceeding has been joined in that investigation. Among the matters the PUC has stated it will consider in its investigation are: (a) limitation of cost recovery to less than 100 percent of the increased costs of fuel; (b) the inclusion of the cost of nuclear fuel in both the current cost and base cost factors of the formula; and (c) the utilization of actual net interchange expense rather than net interchange costs imputed from the cost of fossil fuel. In addition, the PUC has proposed a calculation period for fuel costs that would result in an average lag of approximately eight months in recovering cost changes. Hearings were concluded in that investigation on November 12, 1976 and briefs have been filed. The Company is unable to predict the ultimate effect of the PUC proceeding. However, incorporation of certain of the foregoing proposals in the fuel adjustment clause could have a materially adverse effect on the Company's future revenues and earnings.

In response to a PUC request, the Company's independent auditors submitted a report dated February 1976 based on a review of the Company's electric fuel adjustment clause and its fuel procurement policies, practices and procedures. The report found that the Company incurred additional costs during 1974 as a result of accepting deliveries of coal of lower than normal Btu content and allowing vendors in some instances to charge prices higher than previously agreed upon or to deliver less coal than amounts previously

contracted for. The report indicated that non-adherence to the price terms of coal purchase orders caused the Company to incur additional fuel costs of approximately $1.9 million, but did not estimate the amount by which fuel costs may have been increased by reason of deliveries of less than contract amounts and deliveries of low Btu coal.

On March 15, 1976 the Pennsylvania House of Representatives Mines and Energy Management Committee released a report on the Company's electric fuel adjustment clause, fuel procurement procedures and fuel contracts for 1974. This report, one of several of a similar nature concerning electric utilities operating in Pennsylvania, dealt with substantially the same coal procurement procedures as the above-mentioned report of the Company's independent auditors, and alleged that the Company paid about $5 million in excess fuel costs, including approximately $1.6 million said to be attributable to non-adherence to price terms of coal contracts. The Company presented to the Committee information and testimony in rebuttal to the conclusions of the report. The PUC is conducting a state-wide investigation to determine if the rates charged customers by utilities under its jurisdiction during the energy crisis were unjust or unreasonable or otherwise in violation of the law or orders of the PUC.

On March 15, 1976 the PUC instituted a complaint proceeding against the Company with respect to the components of, the calculations under, and the rates received through, its electric fuel adjustment clause. The Company is unable to predict the outcome of this proceeding, but does not believe it has paid excessive or unjustifiable prices for the supply of fuel during 1974 or during other periods. Pennsylvania law requires the PUC to order electric utilities to make refunds to customers in respect to any amounts found by the PUC to have been improperly paid for coal in 1974.

Construction

During the five years 1972 through 1976, gross property additions amounted to about $2.0 billion (including $1.3 billion of construction work in progress at December 31, 1976) and retirements amounted to about $124 million, resulting in a net increase of approximately 67 percent in the Company's utility plant.

The following table shows the Company's current estimate of capital expenditures for plant additions and improvements for 1977 and 1978-81.

	(Millions of Dollars)	
	1977	1978-81
Electric facilities:		
Generating equipment	$295	$1,279
Nuclear fuel*	62	182
Transmission and distribution facilities	68	375
Other electric facilities	2	3
Total electric	$427	$1,839
Gas facilities	12	62
Steam and common facilities	9	43
Total	$448	$1,944

* Not covered by the contract referred to in Note 9 of Notes to Financial Statements.

During 1976 the Company's construction program for the 1976-80 period was reduced by approximately $800 million. These reductions related principally to the cancellation of the Company's Fulton nuclear station, the cancellation of Delmarva Power & Light Company's Summit nuclear station (in which the Company had a 15 percent interest) and the extension of the construction schedule of the Company's Limerick nuclear station by approximately two years. Because of a reduced estimate of future growth in peak demand, the Company does not believe that these reductions or previous construction program cutbacks will impair service reliability. However, should inadequate rate relief, adverse securities market conditions or other factors prevent full implementation of the Company's financing program, further cutbacks in the construction program may be required which could impair future service reliability.

The following table sets forth the generating facilities of the Company currently under construction. Construction costs and dates of commercial operation may vary substantially from estimates depending on changes in the Company's plans, the degree of difficulty experienced in obtaining regulatory approvals, the availability and costs of labor, capital, materials and equipment, and other factors beyond the Company's control. Construction scheduling for the Salem nuclear units is controlled by Public Service Electric and Gas Company, which will operate the units upon completion.

Unit	Capacity (mw) Total	Capacity (mw) Company Portion	Scheduled Commercial Operation (a)	Company Portion of Cost(b) ($ million) Total	Company Portion of Cost(b) ($ million) Expended Through 12/31/76	Location
Nuclear:						
Salem No. 1	1,090	464	Spring 1977	$ 604	$511(d)	Salem, N. J.
Salem No. 2	1,115	474	1979			
Limerick No. 1(c)	1,055	1,055	1983	2,531	593(d)	Limerick, Pa.
Limerick No. 2(c)	1,055	1,055	1985			

(a) Assuming necessary permits are obtained (see discussions below).

(b) Includes allowance for funds used during construction.

(c) Capacity does not reflect the effect of possible limitations on water use (see discussion in fourth paragraph below).

(d) Excludes $38.9 million of nuclear fuel for Salem and $28.4 million for Limerick.

The cost estimates shown above reflect management's current judgment as to the Company's eventual cost of completing the generating units now under construction, and incorporate upward revisions from earlier estimates due to escalating labor and material costs. Depending on the rate of inflation, further revisions may be necessary.

Construction of the two Salem units, in which the Company will have an ownership interest of approximately 42 percent, is proceeding under construction permits previously issued by the NRC. Fuel loading operations for Unit 1 were completed in September 1976 pursuant to an operating license issued by the NRC on August 13, 1976. The license was amended on December 1, 1976 to authorize operation at full-rated thermal power, conditioned upon an approach to full power in several stages. The license provides for further NRC approval at each stage. Initial criticality was achieved December 11, 1976. Commercial operation at full power is expected to begin in April 1977 and continue until September 1977 at which time operation of the unit is scheduled to be suspended for about eight weeks to permit turbine modifications recommended by the manufacturer for all turbines of the same design.

Salem Unit 1 is expected to be placed in commercial operation for book purposes in the second quarter of 1977, at which time depreciation charges will increase by approximately $900,000 per month and the allowance for funds used during construction will decrease by approximately $2 million per month.

See the discussion below regarding recent court decisions which may result in delays in the NRC's licensing of nuclear power stations. The need for installing cooling towers for the Salem units is being reviewed by the EPA and the Company's share of their cost, estimated to be about $43 million, is not included in the estimate of Salem capital costs.

Construction permits for the two Limerick units were issued by the NRC in June 1974. The NRC based its decision to issue construction permits upon a mode of plant operation requiring limitation of the water supply to the Limerick units under certain low river flow conditions. The Company believes that such limitations would not substantially impair the economic desirability of the plant. The DRBC has required the submission of an Environmental Report and Application for the construction of reservoir storage by October 1, 1977. The Company's share of this storage is estimated to cost between $35 million and $40 million,

which is not included in the Company's estimate of the cost of the Limerick Units. In addition, the Company is negotiating for water from a proposed Federal reservoir project which would eliminate, or defer, the construction of the private reservoir storage.

Following a recent decision of the United States Court of Appeals for the District of Columbia Circuit which would require the NRC to hold further rulemaking proceedings on the consideration to be given in licensing proceedings to the environmental impact of the reprocessing of spent nuclear fuel and the disposal of radioactive wastes, an environmental group has requested that the NRC halt construction or operation of fourteen nuclear power plants in Pennsylvania and New Jersey, including the Limerick, Peach Bottom, and Salem units, until the NRC has completed such rulemaking proceedings. With the issuance of an interim rule on March 14, 1977, the NRC has stated that proceedings such as those involving the environmental group's requests to halt construction or operation of the fourteen units are to be terminated. Petitions for Writs of Certiorari seeking United States Supreme Court review of the Court of Appeals decision have been filed by an individual utility and by a group of affected utilities, including the Company. The petition filed by the individual utility has been granted. No action has been taken yet regarding the petition filed by the group of utilities.

A second decision of the United States Court of Appeals for the District of Columbia Circuit would require the NRC to consider energy conservation as an alternative to construction of nuclear plants in facility licensing proceedings where it had not previously done so (in addition to considering alternative means of generating power). The requests by the environmental group that the construction or operation of fourteen nuclear units be halted is also based on the conservation issue as well as on other matters. A petition for a Writ of Certiorari seeking review of the Court's decision was filed with the United States Supreme Court and has been granted.

An NRC Atomic Safety and Licensing Board, on February 22, 1977, accepted for consideration in the Peach Bottom Units 2 and 3 case the environmental group's contention based upon the energy conservation issue, but rejected all other issues. The Licensing Board did not halt or in any way limit operation of the Peach Bottom units pending its consideration of the energy conservation issue. The Company and the NRC staff have appealed the Licensing Board's action regarding the energy conservation issue. Energy conservation was considered at the construction permit stage for the Limerick units but not during the licensing of the Peach Bottom or Salem units.

The Company is at this time unable to predict whether or how these matters will ultimately affect the costs or timetables associated with construction and operation of the Limerick, Peach Bottom and Salem units.

Upon completion and licensing of the Salem and Limerick units, it is expected that about 35 percent of the Company's installed generating capacity will be nuclear, compared to about 12 percent at December 31, 1976.

Lines of Business

Operating income (loss) before income taxes from electric, gas and steam operations of the Company and subsidiaries was:

	(Thousands of Dollars)				
	1972	1973	1974	1975	1976
Electric	$166,051	$170,062	$196,445	$261,549	$273,831
Gas	16,859	22,771	26,889	19,567	34,417
Steam	1,245	730	(3,170)	2,306	3,775
Total	$184,155	$193,563	$220,164	$283,422	$312,023

The increase in gas operating income for 1976 as compared with 1975 relates principally to higher rates and increased sales.

Electric Operations

The net installed electric generating capacity (summer rating) of the Company and subsidiaries at December 31, 1976 was as follows:

Type of Capacity	Megawatts(mw)	% of Total
Nuclear	886	11.5%
Service area coal-fired	785	10.1
Mine-mouth coal-fired	705	9.1
Oil-fired	2,348(a)	30.3
Hydro (incl. pumped storage)	1,392	18.0
Internal combustion	1,626	21.0
Total	7,742(b)	100.0%

(a) Includes 1,107 mw that have coal-firing capability, of which 335 mw can be converted within two weeks.

(b) See "Fuel" for sources of fuels used in electric generation.

The maximum hourly demand on the Company's system was 5.8 million kilowatts which occurred on August 30, 1973. The installed capacity (summer rating) at December 31, 1976 of 7.7 million kilowatts provides a reserve of 1.7 million kilowatts against the estimated 1977 peak demand of 6.0 million kilowatts. The Company's estimate of the average generating reserve margin for the four years 1977-1980 is approximately 28 percent.

The Company is a member of the Pennsylvania-New Jersey-Maryland Interconnection (PJM), which fully integrates the bulk power generating and transmission operations of eleven electric utilities serving more than 21,000,000 people in a 50,000 square mile territory. Through the constant interchange of electricity, this integrated operation offers greater reliability and economy than would be possible if the bulk power systems of these same companies were developed and operated independently. The maximum PJM demand was 31.0 million kilowatts, which occurred on August 30, 1973. The PJM installed capacity (summer rating) at December 31, 1976 was 41.7 million kilowatts, providing a reserve of 8.6 million kilowatts against the estimated 1977 PJM peak demand of 33.1 million kilowatts.

The capacity available at any time for operation of the Company's system and the PJM may be less than the installed capacity due to generating units being temporarily out of service for inspection, maintenance, repairs or unforeseen circumstances. PJM's planned reserve margins are designed to allow for these contingencies. The PJM reserve margins required to meet the Mid-Atlantic Area Council (MAAC) reliability criteria vary from year to year due to variations in system characteristics. It is expected that the Company's planned capacity additions for the four years 1977-80 will provide enough installed capacity for the Company to supply its share of the PJM reserve margin during that period.

The Company is a member of MAAC, which is made up of the eleven PJM companies and several municipal and cooperative electric systems operating within the PJM service area. MAAC's purpose is to augment the reliability of the bulk electric systems of its members through coordinated planning of their generation and transmission facilities. MAAC, as a member of the National Electric Reliability Council (NERC), interacts with the other eight members of NERC's nine-region network, which encompasses the contiguous 48 states of the United States and part of Canada, to develop coordinated planning of interregional bulk electric transmission systems so that reliability of service may be maintained.

The Company, through wholly-owned subsidiaries, operates the Conowingo Hydro-Electric Project, which is licensed to the subsidiaries by the FPC and which contributed about seven percent of the Company's total electric output in 1976. The original license for the Project expired February 20, 1976. The Federal Power Act provides that upon the expiration of the original license, the Project may be taken over by the United States or a new license issued to the original licensee or to a new licensee, provided that before the United States or a new licensee takes possession, there shall be paid to the original licensee the net investment in the Project, not to exceed fair value, plus reasonable severance damages. Pursuant to a section of the Act and the rules of the Commission providing for the automatic issuance of annual licenses to the original licensee if the Commission has not acted upon the application for a new license when the

original license has expired, the Company has been issued a new annual license for the Project expiring February 19, 1978 which the Company has reason to believe will be renewed. The Commission has permitted the Pennsylvania Fish Commission, the Maryland Department of Natural Resources and the Susquehanna River Basin Commission to intervene in the relicensing proceedings.

The Federal Energy Administration (FEA) has ordered certain other utilities to convert oil-fired plants to coal-firing and, at the FEA's request, the Company has supplied information with respect to the feasibility of converting three of its oil-fired units (with an aggregate capacity of 451 mw) to coal-firing. The Company is presently unable to predict the extent, if any, to which its operations may be affected by FEA action, the cost of any conversion that may be ordered, or the effect of any such conversion on the Company's ability to meet environmental standards.

The Company's nuclear energy is generated by Peach Bottom Units 2 and 3. Peach Bottom Unit 2 has a capacity of 1,051 mw, of which the Company is entitled to 447 mw, and Peach Bottom Unit 3 has a capacity of 1,035 mw, of which the Company is entitled to 439 mw. For a discussion of recent developments with respect to the NRC's licensing of construction and operation of nuclear generating units, including the Peach Bottom units, see "Construction".

A decision of the NRC issued on August 8, 1974, which sustained the issuance of a full power operating license for Unit 2, was appealed by three environmental groups which had participated in the NRC licensing proceedings. This appeal was denied in most respects by the United States Court of Appeals for the District of Columbia Circuit on December 9, 1975; however, the Court remanded one matter to the NRC for further consideration: whether further reductions in routine releases of low level radiation (which reduction would involve the installation of additional equipment) would produce a favorable cost/benefit ratio. The Court did not suspend the license for Unit 2 or in any way limit its operation pending a decision on remand in view of the current low level of emissions. The Company believes that no additional equipment will be required as a result of the NRC proceeding on remand.

In recent months equipment failures have resulted in cooling tower outages at the Peach Bottom Station. Pending permanent repairs or replacements, which are expected to be completed by the late summer of 1977, the output of the Peach Bottom units may be reduced or interrupted during periods of low river flow.

EPA, PDER and an NRC Licensing Board have each imposed a requirement that a closed cycle cooling system be installed at the Peach Bottom Station by July 1, 1977, a date which the Company believes cannot be met, considering the time necessary to acquire needed permits and the lead time necessary for ordering components and for construction. The NRC Licensing Board's requirement is presently under review by the NRC Atomic Safety and Licensing Appeal Board and EPA's requirement is also subject to further EPA review. The Company and PDER have reached an agreement whereby PDER has suspended its requirement, at least until after EPA's determination as to alternative thermal limitations discussed under "Environmental Regulations." The agreement also requires the Company to construct two additional cooling towers and pending their completion to operate the station in accordance with interim thermal limitations. Under low river flow conditions these limitations might be exceeded and operation of the units at reduced power would be required. The two additional cooling towers will be utilized in a closed cycle cooling system if such is ultimately required. Under the NRC Licensing Board's requirements full power operation would be permitted until July 1, 1977, although reduced power output would be required under certain conditions thereafter if the closed cycle cooling system were not completed by that date. The Company is presently seeking to have the EPA and NRC requirements conform to those agreed upon with PDER. A closed cycle cooling system could lower the net capacity of the station by a maximum of 3.5 percent.

Fuel

Fuel shortages and increases in fuel prices have not prevented the Company from supplying its customers' full electric requirements to date. The Company is unable to predict the impact these factors may have on its future operations.

The sources of the Company's electric output for 1976 and as estimated for 1977 are shown in the table below:

Type of Generation	1976	1977 (Est.)
Nuclear	17%	27%
Service area coal-fired	15	16
Mine-mouth coal-fired	12	13
Oil-fired	20	20
Hydro (includes pumped storage)	6	4
Internal combustion	3	1
Purchased and net interchange	27	19
	100%	100%

The Company's average cost of fuel used for generating electricity in the periods shown below was as follows:

	Calendar Year				
	1972	1973	1974	1975	1976
Oil					
Cost per barrel	$ 4.16	$ 5.11	$ 11.89	$ 13.01	$ 12.60
Cost per million Btu	0.69	0.86	1.98	2.14	2.05
Coal					
Mine-mouth plants					
Cost per ton	$ 8.51	$10.85	$ 14.36	$ 18.82	$ 23.55
Cost per million Btu	0.39	0.49	0.66	0.85	1.00
Philadelphia area plants					
Cost per ton	$13.39	$14.12	$ 22.67	$ 31.13	$ 34.99
Cost per million Btu	0.53	0.56	0.98	1.29	1.28
Nuclear					
Cost per million Btu	0.15	0.16	0.25	0.26	0.26

Oil. Under the Emergency Petroleum Allocation Act of 1973, the FEA has the authority to allocate fuel oil and certain other petroleum products to the electric utility industry. However, the FEA removed all price and allocation controls which had been in effect with respect to residual (No. 6) fuel oil as of June 1, 1976, and on July 1 FEA price and allocation controls on No. 2 fuel oil expired. No. 6 oil accounts for approximately 95 percent of the Company's current fuel oil consumption and No. 2 oil the remaining 5 percent.

The Company customarily enters into yearly purchase orders with its oil suppliers for the bulk of its requirements, and makes "spot" purchases for the balance. At present, the Company's purchase orders for No. 6 oil are sufficient to meet approximately 88 percent of the estimated fuel oil needs of its oil-burning generating units for 1977.

The Company seeks to maintain a fuel oil inventory of one million barrels, the equivalent of about 23 days' requirements. At the end of January 1977 the inventory of No. 6 oil had dropped below 800,000 barrels, or 18 days' requirements, as a result of increased generation by oil-fired units due to extreme cold weather. Additional purchases of No. 6 oil have been made and as of March 1977 the fuel oil inventory of the Company was up to 1 million barrels.

The fuel currently being burned in the Company's oil-fired generating units is in compliance with applicable air pollution control standards of the Commonwealth of Pennsylvania and the City of Philadelphia, except for small quantities of oil burned at two stations pursuant to temporary emergency authorization.

Coal. The Company has an approximate 20 percent ownership interest in the Keystone and Conemaugh coal-fired mine-mouth generating stations in western Pennsylvania, operated by Pennsylvania Electric Company. Approximately 90 percent of the Keystone Station's fuel requirements are supplied by one coal company under a contract which the Keystone Station's owners have the right to extend to 2012. Approximately 80 percent of Conemaugh Station's fuel requirements are supplied by another coal company under

a similar contract lasting for the life of the station. The coal requirements of both plants not covered by the long-term contracts are, with minor exceptions, obtained from local suppliers. The Company estimates the remaining useful service life of the Keystone and Conemaugh stations to be approximately 21 years and 24 years, respectively. Based on present estimated output and capacity factors for the years 1977-80 the Keystone and Conemaugh stations will burn a total of approximately 8 million tons of coal per year.

The Company has no long-term commitments for the supply of fuel to its Philadelphia area coal-fired units (Eddystone and Cromby generating plants). For many years the Company has obtained such fuel under annual purchase orders with various coal suppliers, including one supplier which has furnished approximately half of such coal during each of the past ten years. Some of these orders extended to April 1, 1977. Bids were recently solicited and new orders and contracts have been issued covering one year periods commencing April 1, 1977, and which are expected to provide sufficient coal to fill the requirements at the Company's Philadelphia area coal-fired units at least through 1977. The average sulfur content of contract coal purchased for these units in December 1976 was 2.6 percent. While this sulfur content does not meet the pollution control standards of the EPA and PDER, the coal-fired boilers at Eddystone and Cromby stations are presently operating under consent orders of the EPA and PDER.

Nuclear. The Company has contracts for nuclear fuel which, together with additional conversion and fabrication contracts it expects to negotiate without difficulty, will permit it to fully operate Peach Bottom Units 2 and 3, and Limerick Units 1 and 2 through 1986, assuming the Limerick units are placed in commercial operation at the currently scheduled times. The operating company of the Salem units (of which the Company is part owner) has informed the Company it has obtained firm commitments for uranium sufficient to operate the units into 1980.

In addition, long-term uranium supply ventures recently entered into by the operating company are expected to provide additional uranium, a portion of which would be used to supply essentially all of the Salem requirements through 1995.

Additional nuclear supply contracts will be required with respect to the units operated or to be operated by the Company and with respect to the Salem units. There can be no assurance that such contracts can be obtained, or that the prices involved may not be significantly higher than at present.

Summarized below are the provisions the Company has made with respect to fuel requirements for the Peach Bottom and Limerick units. The cycle of production and utilization of nuclear fuel consists of the mining and milling of uranium ore; the conversion of uranium concentrate to uranium hexafluoride; the enrichment of the uranium hexafluoride; the fabrication of fuel assemblies; the utilization of the nuclear fuel in the generating station reactor; and the reprocessing of spent fuels. The Company has contracted for segments of the nuclear fuel supply cycle with respect to the units referred to above to the following years:

	Uranium Concentrate	Conversion	Enrichment	Fabrication	Reprocessing
Peach Bottom Unit 2	1983	1982	1998	1981	1981
Peach Bottom Unit 3	1984	1982	1998	1981	1981
Limerick Unit 1	1984	1981	2001	1986	—
Limerick Unit 2	1985	1981	2001	1988	—

Nuclear Fuel Services Inc., the fuel reprocessor with which the Company had made arrangements for reprocessing fuel discharged from Peach Bottom Units 2 and 3 and Limerick Units 1 and 2 during the years 1982-1990, announced in September 1976 that it has withdrawn from the nuclear fuel reprocessing business. The Company has not determined what action may be required on its part in response to this development.

No NRC decision has been made regarding the recycling of plutonium nor has the NRC licensed any commercial reprocessing facilities to recover uranium and plutonium. An NRC decision on these matters is not expected before 1978. The spent storage pools at Beach Bottom Station are adequate for storage through 1980. The Company has authorized the replacement of the present storage racks with new racks which will double the storage capability of the spent fuel pool.

The Company expects that the NRC will permit the recovery of plutonium and uranium from spent fuel for recycling into new fuel. Until the costs of recovery of plutonium and uranium are known, the

Company is calculating its nuclear fuel costs on the basis of a zero net salvage value. If recovery of plutonium and uranium is not permitted, the Company would incur additional costs associated with disposal of spent fuel. The Company cannot estimate the ultimate disposal costs but it believes that any such additional costs would be recoverable through adjustments of rates charged to its customers.

Gas Operations

The Company purchases natural gas from Texas Eastern Transmission Corporation (Texas Eastern) under contracts expiring in 1987 and from Transcontinental Gas Pipe Line Corporation (Transcontinental) under contracts expiring in 1990. The Company's annual entitlement under these contracts is 79.4 billion cubic feet. However, because of nationwide gas shortages, the Company's supply is being curtailed. During 1975, 19.6 billion cubic feet, or 25 percent of the contracts, were curtailed, and for 1976 the Company curtailments were 23 billion cubic feet, or 29 percent of the contracts. Probable curtailment in 1977 will be 29 billion cubic feet, or 37 percent of contracts.

To alleviate curtailments under the Company's long-term supply contracts, the Company purchased approximately 7 percent of its 1975-76 heating season sendout from several intrastate pipeline companies in the Southwest under 60-day emergency contracts authorized by the FPC under the Natural Gas Act. The Company has also purchased liquefied petroleum gas and synthetic natural gas and has produced substitute gas from oil; these measures provided approximately 2 percent of the 1975-76 heating season sendout.

The Company is negotiating to share in the output of a synthetic gas plant with a service date of 1979. With other gas utilities, the Company in 1975 entered into a three-year joint venture with Transcontinental and an independent producer to explore and drill for gas in the Gulf Coast states. Several successful wells have been drilled and are presently being evaluated. Participation in another similar drilling and exploration program began in September 1976 and will continue for 2 years. The Company's current annual gas exploration budget is approximately $2.3 million.

At December 31, 1976 the Company had 9 billion cubic feet of gas in storage, which represents approximately 22 percent of the Company's anticipated 1976-77 heating season sendout.

A new plan for curtailment of gas service was filed with the PUC on January 14, 1977 and went into effect the following day. This plan differentiates between critical and non-critical use of gas by industrial customers. The extremely cold weather during the first few months of the 1976-77 heating season depleted available gas quantities. To conserve remaining supplies, 29 of the Company's largest industrial customers were curtailed their entire non-critical gas volumes, beginning on January 19, 1977, and 50 percent of their critical gas volumes, beginning on January 24, 1977. On January 28, 1977, it was necessary to impose on the 105 largest industrial customers a complete curtailment of all gas use except for the minimum amount required for plant protection. On February 5, 1977 the same complete curtailment was further expanded to include the entire industrial gas category and commercial loads in excess of 50,000 cubic feet per day, involving over 2,000 customers.

Under the new Federal natural gas legislation, with a complete industrial and large commercial curtailment, the Company qualifies for an emergency allocation of natural gas whenever priority one residential markets are in jeopardy. Available emergency supplies of natural gas are allocated by the FPC. These allocations were received between February 5 and February 8, 1977 when the purchase of emergency gas was resumed. These emergency gas purchases, coupled with the milder weather near the middle of February, eased the supply situation sufficiently so that on February 14, 1977 curtailments were lifted on all customers except for the 29 largest who were allotted up to 50 percent of critical volumes. On March 1, 1977 these same 29 customers had their full critical gas volumes restored, but non-critical gas volumes remained under curtailment. Non-critical gas is that which can be replaced by feasible alternate forms of energy. It is likely that some degree of curtailment will continue throughout 1977 in order to permit replenishment of depleted storage fields during the summer.

A PUC order presently in effect provides that no public utility under its jurisdiction may increase the number of gas customers above that number which existed at the time of the order unless it can show the Commission that its gas supplies are sufficient to meet their future requirements. Based on present and anticipated levels of deliveries from suppliers, the Company can make no commitments of gas to any number of customers greater than the number which existed at the time the order was issued.

Item 2. Summary of Operations

CONSOLIDATED STATEMENTS OF EARNINGS
(Thousands of Dollars)

These statements have been examined by Coopers & Lybrand, independent certified public accountants. They should be read in conjunction with their report and the other consolidated financial statements and related notes appearing elsewhere herein.

	Calendar Year				
	1972	1973	1974	1975	1976
OPERATING REVENUE (Note 1):					
Electric	$574,431	$646,758	$ 873,474	$ 978,368	$1,024,814
Gas	93,286	100,508	108,929	117,989	158,865
Steam	17,321	19,392	29,323	38,453	40,462
Total Operating Revenue	685,038	766,658	1,011,726	1,134,810	1,224,141
OPERATING EXPENSES (Note 1):					
Fuel and energy interchange	211,972	260,294	439,231	457,783	480,663
Other operation expense	119,955	132,435	145,415	162,504	175,801
Maintenance	55,461	58,742	61,971	62,313	75,030
Depreciation—Schedule VI	60,515	64,271	77,802	91,221	97,980
Taxes on income (Note 6)	40,607	45,140	67,157	86,337	100,598
Taxes, other than income (Note 7)	52,980	57,353	67,143	77,567	82,644
Total Operating Expenses	541,490	618,235	858,719	937,725	1,012,716
OPERATING INCOME	143,548	148,423	153,007	197,085	211,425
OTHER INCOME (Note 1):					
Allowance for funds used during construction (A)	42,450	58,743	70,841	66,874	77,641
Income tax credits, net (A)	(435)	3,374	25,441	22,271	24,167
Other, net	196	2,643	271	2,087	2,548
Total Other Income	42,211	64,760	96,553	91,232	104,356
INCOME BEFORE INTEREST CHARGES	185,759	213,183	249,560	288,317	315,781
INTEREST CHARGES:					
Long-term debt	73,383	84,837	106,298	136,507	147,596
Short-term debt	4,402	5,479	14,165	7,885	3,567
Total Interest Charges	77,785	90,316	120,463	144,392	151,163
NET INCOME	107,974	122,867	129,097	143,925	164,618
PREFFERRED STOCK DIVIDENDS	21,558	27,600	33,682	36,026	39,022
EARNINGS APPLICABLE TO COMMON STOCK	$ 86,416	$ 95,267	$ 95,415	$ 107,899	$ 125,596
SHARES OF COMMON STOCK—AVERAGE (Thousands)	41,505	47,847	52,717	58,135	65,606
EARNINGS PER AVERAGE SHARE (Dollars)	$2.08	$1.99	$1.81	$1.86	$1.91
DIVIDENDS PER SHARE (Dollars)	$1.64	$1.64	$1.64	$1.64	$1.64

Numbered note reference relate to Notes to Financial Statements.

(A) In accordance with the applicable regulatory system of accounts an allowance for funds used during construction is included in construction work in progress and credited to other income based on the estimated composite cost rate of funds so used. See the discussions of the allowance under "MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE CONSOLIDATED STATEMENT OF EARNINGS" and Note 1. The rate used in determining the allowance was 8% from January 1, 1972 through September 30, 1973. In conformity with an order of the PUC whereby the income tax reductions arising from interest charges associated with debt used to finance construction are allocated to other income, the net after-tax rates adopted were 7½% on October 1, 1973, 7¾% on July 1, 1974, 8% on January 1, 1975, 8¼% on July 1, 1975, 8.20% on January 1, 1976 and 8.40% on July 1, 1976. Income tax reductions allocated from operating expenses to other income were $4,748 in 1973, $25,134 in 1974, $22,520 in 1975 and $24,701 in 1976. The estimated portions of the allowance attributable to funds provided by common stock equity were equivalent to the following percentages of earnings applicable to common

stock: 19% in 1972, 21% in 1973, 16% in 1974, 13% in 1975 and 15% in 1976. The percentages were calculated without regard to the tax effect of interest on debt.

(B) The quarterly data shown below is unaudited but in the opinion of the Company includes all adjustments (consisting of normal recurring accruals) necessary for a fair presentation of such amounts.

	Quarter Ended			
	Mar. 31, 1976	June 30, 1976	Sept. 30, 1976	Dec. 31, 1976
Operating revenue	$324,740	$282,408	$316,011	$300,982
Net income	$ 42,986	$ 32,715	$ 44,875	$ 44,042
Earnings applicable to common stock	$ 33,983	$ 23,057	$ 34,693	$ 33,863
Average shares outstanding (thousands)	64,221	64,498	64,818	68,859
Earnings per average share (dollars)	$ .53	$ .36	$ .54	$ .48

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE CONSOLIDATED STATEMENTS OF EARNINGS

General

Although revenues have increased substantially in recent years, higher operating costs and carrying charges on increased investment in plant and equipment have affected net income and earnings per average share adversely and are expected to continue to do so unless periodic rate relief is obtained to offset such increased costs and charges. Reduced customer usage of all services has also adversely affected earnings in recent years.

Operating Revenue

Operating revenue increased $123 million in 1975 and $89 million in 1976 principally reflecting higher fuel adjustment revenues and base rates which added an aggregate of $111 million to operating revenues in 1975 and $53 million in 1976. Kwh sales of electricity in 1975 were slightly below 1974, as a result of lower sales to large commercial and industrial customers which were only partially offset by increased sales to residential customers. Mcf sales of gas decreased 14 percent in 1975 from 1974 principally because of curtailments by the Company's major pipeline suppliers. For 1976, kwh sales increased 4 percent over 1975, principally reflecting the economic recovery, and mcf sales increased 13 percent as a result of the availability of gas under emergency contracts and colder weather in October, November and December 1976.

Fuel and Energy Interchange Expense

Fuel and energy interchange expense in 1974 increased by $179 million over the previous year, and further increases of $19 million and $23 million, respectively, were experienced in 1975 and 1976. In 1974 the increase in this expense was primarily due to substantial increases in fossil fuel prices.

Other Operation and Maintenance Expenses

Other operation and maintenance expenses have increased in each period due to growth in utility plant and inflationary pressures.

Depreciation

Increases in depreciation in 1975 and 1976 reflect major additions to new plant in service.

Taxes on Income

Salem No. 1 nuclear generating unit, in which the Company has an ownership interest of approximately 42 percent, qualified as in service for tax purposes in December 1976. Federal and state income taxes for 1976 reflect reductions of $9.1 million associated with Salem Unit 1 tax depreciation (of which $5.5 million was deferred and $3.6 million flowed through to income). The related investment tax credit of $29 million reduced federal income taxes payable and was deferred by charging investment tax credits, net by the same amount.

Taxes, Other Than Income

Taxes, other than income taxes, have escalated primarily due to increases in revenue, which is subject to a gross receipts tax.

Allowance for Funds Used During Construction

The decrease in the allowance for 1975, as compared with 1974, resulted from the full year effect in 1975 of new plant placed in service during late 1974. The increase in 1976 over 1975 resulted from an increase in construction work in progress and a higher cost of capital for construction.

The allowance, which capitalizes construction financing costs, does not result in the receipt of cash by the Company when it is credited to "Other Income," and the Company understands that the propriety of its classification and presentation as income has been challenged in an action, to which the Company is not a party, against another electric utility. A return on, and recovery of, the allowance through rates charged to customers is allowed under established regulatory rate-making practices after the related assets have been placed in service. The Company presently intends to continue to include the allowance for funds used during construction in its Consolidated Statement of Earnings as required by the applicable regulatory system of accounts and in accordance with generally accepted accounting principles.

Interest Charges; Dividends on Preferred and Common Stock

Interest charges on debt and dividends on preferred stock have increased substantially in recent years because of the higher cost of money and increases in the amounts of debt and preferred stock outstanding.

Earnings available for common stock increased from $95 million in 1974 to $108 million in 1975 and $126 million in 1976. The sales of almost 11 million shares of common stock in 1975, and approximately 5.1 million in 1976 increased the average number of shares outstanding by 10 percent in 1975 and by 13 percent in 1976. Earnings per average share increased from $1.81 in 1974 to $1.86 in 1975 and to $1.91 in 1976.

Dividends on common stock, which were paid at the rate of $1.64 per share in each of the years 1972 through 1976, increased from $68 million in 1972 to $108 million in 1976 as a result of the increase in the number of shares outstanding.

Item 3. Properties

The principal plants and properties of the Company are subject to the lien of the Mortgage under which the Company's First and Refunding Mortgage Bonds are issued.

The Company's electric properties are located in Pennsylvania, Maryland and New Jersey. The following table sets forth the Company's net generating capability by stations at December 31, 1976:

PHILADELPHIA ELECTRIC COMPANY SYSTEM

GENERATING CAPABILITY

DECEMBER 31, 1976

Station	Location	Net Generating Capability† (Kilowatts)
Nuclear		
Peach Bottom	Peach Bottom Twp., Pa.	886,000*
Hydro		
Conowingo	Harford Co., Md.	512,000
Pumped Storage		
Muddy Run	Lancaster Co., Pa.	880,000
Fossil (Steam Turbines)		
Barbadoes	W. Norriton Twp., Pa.	134,000
Chester	Chester, Pa.	124,000
Cromby	Chester County, Pa.	351,000
Delaware	Philadelphia, Pa.	250,000
Eddystone	Eddystone, Pa.	1,395,000
Richmond	Philadelphia, Pa.	274,000
Schuylkill	Philadelphia, Pa.	249,000
Southwark	Philadelphia, Pa.	356,000
Conemaugh	New Florence, Pa.	352,000*
Keystone	Shelocta, Pa.	353,000*
Fossil (Gas Turbines)		
Barbadoes	W. Norriton Twp., Pa.	56,000
Chester	Chester, Pa.	48,000
Delaware	Philadelphia, Pa.	66,000
Eddystone	Eddystone, Pa.	68,000
Falls	Falls Twp., Pa.	54,000
Moser	Lower Pottsgrove Twp., Pa.	54,000
Plymouth Meeting	Plymouth Meeting, Pa.	70,000
Richmond	Philadelphia, Pa.	634,000
Salem	Salem, N. J.	16,000*
Schuylkill	Philadelphia, Pa.	34,000
Southwark	Philadelphia, Pa.	64,000
Croydon	Bristol Twp., Pa.	432,000
Fossil (Internal Combustion)		
Plymouth	Plymouth Meeting, Pa.	6,000
Cromby	Phoenixville, Pa.	2,750
Delaware	Philadelphia, Pa.	2,750
Richmond	Philadelphia, Pa.	2,700
Southwark	Philadelphia, Pa.	2,700
Schuylkill	Philadelphia, Pa.	2,700
Chester	Chester, Pa.	2,700
Barbadoes	Norristown, Pa.	2,700
Keystone	Shelocta, Pa.	2,300*
Conemaugh	New Florence, Pa.	2,300*
Total		7,741,600

† Summer rating

* Philadelphia Electric Company portion

Major transmission and distribution lines owned and in service are as follows:

Voltage	Conductor Miles
Transmission:	
500 Kv	632
220 Kv	1,243
132 Kv	454
66 Kv	387
33 Kv and below	398
Distribution:	
220 Kv	39
132 Kv	50
66 Kv	121
33 Kv and below	43,728

The Company's principal electric distribution system includes 883 pole-line miles of overhead lines and 11,632 cable miles of underground cables.

See Note 9 of Notes to Financial Statements regarding the Company's rental and lease commitments.

The following table sets forth the Company's gas facilities which are located in southeastern Pennsylvania:

Station	Location	Type	Production Capacity	Storage Capacity	Sendout Capacity
Tilghman	Chester, Pa.	High BTU Oil Gas	24,000 mcf/day (1)	5.5 million gal. oil (2)	24,000 mcf/day (1)
		Propane	31,000 mcf/day (1)	2.0 million gas. LPG (3)	31,000 mcf/day (1)
W. Conshohocken	W. Conshohocken, Pa.	LNG	—	1,200,000 mcf	200,000 mcf/day

(1) Natural gas equivalent

(2) 15 days supply

(3) 6 days supply

In addition to the above-mentioned gas facilities, the Company owns sixteen natural gas city gate stations at various locations throughout its gas service territory. These stations have a total sendout capacity of 370,000 mcf/day.

The following table sets forth the Company's gas pipeline miles:

Transmission	28
Distribution	4,125
Service Piping	2,884
Total	7,037

The Company owns two steam-heat production plants, both located in the City of Philadelphia. Together, the two plants have a total production capability of 1.6 million pounds of steam per hour.

Item 4. Parents and Subsidiaries

The Company has no parent.

All significant subsidiaries of the Company as of December 31, 1976:

	Percent Voting Stock Owned	State in Which Incorporated
Philadelphia Electric Power Co.	100%	Pennsylvania
The Susquehanna Power Co.	100%	Maryland
The Susquehanna Electric Co.	100%	Maryland
Conowingo Power Co.	100%	Maryland

The above companies are included in the consolidated financial statements.

Item 5. Legal Proceedings

There is pending against the Company in the United States District Court for the Eastern District of Pennsylvania an action filed in November 1975 by an alleged organization and eight (now seven) present or past employees of the Company, on their own behalf and on behalf of an alleged class, seeking to enjoin the Company from engaging in various employment or promotion practices alleged to discriminate on the basis of race and national origin and seeking various types of damages in an unspecified amount. Another action filed in October 1976 has been instituted in the same court by an alleged organization and eight employees, on their own behalf and on behalf of an alleged class. The second action seeks to enjoin the Company from engaging in various employment or promotion practices alleged to discriminate on the basis of race, sex, and national origin and seeks various types of damages in an unspecified amount. In the opinion of Dilworth, Paxson, Kalish & Levy, special counsel for the Company, the Company has substantial grounds for resisting determinations that the actions be allowed to proceed as class actions and has meritorious defenses to both suits. The Company believes that if damages were awarded in the individual cases, they would not be in an amount which would have a materially adverse effect on the Company. In this rapidly changing area of the law, damages in successful class actions may be substantial. If awarded, such damages might have a materially adverse effect on the Company.

The Company has been named as a defendant in a suit filed August 26, 1976 in the U.S. District Court for the Eastern District of Pennsylvania against Gulf Oil Corporation and Texas Eastern Transmission Corporation brought by two purchasers of natural gas from the Company on behalf of themselves and the class of such purchasers. The complaint charges that Gulf and Texas Eastern conspired to withhold natural gas from the interstate market and thereby raised the cost of natural gas to the Company and consequently to the plaintiffs. The claim against the Company is that it failed to take proper steps to counteract the alleged violations of law by Gulf and Texas Eastern. The complaint seeks injunctive relief and damages against all defendants in an unspecified amount, which plaintiffs aver will exceed $4 million. The Company believes that it has substantial defenses to the claims and has filed a motion to dismiss the complaint.

Item 6. Increases and Decreases in Outstanding Securities

Philadelphia Electric Company

Equity Securities	Amount of Equity Securities (Number of Shares)
Common Stock, without par value:	
Outstanding at December 31, 1975	64,196,338
Add—Shares issued upon—	
Purchase by employees under Employee Stock Purchase Plan	165,878
Purchase by shareholders under Dividend Reinvestment and Stock Purchase Plan	899,660
Allocation under Tax Reduction Act Stock Ownership Plan	44,689
Shares sold to public at $17.50 per share on October 6, 1976	4,000,000
Outstanding at December 31, 1976	69,306,565
9.52% Preferred Stock, $100 par value:	
Outstanding at December 31, 1975	—
Add—Shares sold May 4, 1976	500,000
Outstanding at December 31, 1976	500,000
7% Preferred Stock, $100 par value:	
Outstanding at December 31, 1975	383,915
Subtract—Shares retired per sinking fund	7,915
Outstanding at December 31, 1976	376,000

There were no securities of the Company sold by the Company during the year, which were not registered under the Securities Act of 1933, in reliance upon an exemption from registration provided by Section 4(2) of that Act.

Item 7. Approximate Number of Equity Security Holders

	Number of Record Holders As of December 31, 1976
Common Stock, no par value	221,334
9.52% Preferred Stock, $100 par	1,749
9.50% Preferred Stock, $100 par	5,397
8.75% Preferred Stock, $100 par	6,139
7.85% Preferred Stock, $100 par	3,235
7.80% Preferred Stock, $100 par	5,592
7.75% Preferred Stock, $100 par	3,050
7.325% Preferred Stock, $100 par	2
7% Preferred Stock, $100 par	1,457
4.68% Preferred Stock, $100 par	1,066
4.4% Preferred Stock, $100 par	3,150
4.3% Preferred Stock, $100 par	1,137
3.8% Preferred Stock, $100 par	1,929

Item 8. Executive Officers of Registrant

Name	Age	Position	Effective Date of Election to Present Position
R. F. Gilkeson	59	Chairman, Chief Executive Officer	April 14, 1971
J. L. Everett III	50	President	April 14, 1971
H. T. Bryans	61	Vice President	February 26, 1968
V. S. Boyer	58	Vice President	October 28, 1968
E. G. Bauer, Jr.	48	Vice President, General Counsel	October 1, 1970
J. H. Austin, Jr.	48	Vice President	January 25, 1971
M. F. Gavet	61	Vice President	April 14, 1971
C. V. Myers	57	Vice President	April 14, 1971
W. B. Morlok	52	Vice President	September 15, 1971
W. C. Astley	60	Vice President	April 11, 1973
J. L. Hankins	58	Vice President	April 11, 1973
W. L. Maruchi	55	Vice President	April 11, 1973
C. Brenner	52	Vice President	April 14, 1976
T. S. Fetter	63	Secretary	January 1, 1975
M. W. Rimerman	47	Treasurer	October 1, 1973

The present term of office of each of the above executive officers extends to the first meeting of the Company's Board of Directors after the next annual election of Directors (scheduled to be held April 13, 1977).

Each of the above executive officers, except for Mr. Brenner, has been employed by the Company for more than five years. Prior to joining the Company in September 1975, Mr. Brenner was president of his own public relations firm, Brenner Romm and Karetny, specializing in education and public affairs.

Prior to election to the positions shown above, the following executive officers held other positions with the Company since January 1, 1972: Mr. Astley was Manager of Corporate Planning and Vice President thereafter; Mr. Hankins was Manager of Electric Production and Vice President thereafter; Mr. Maruchi was Manager of Electric Transmission and Distribution and Vice President thereafter; Mr. Fetter was Assistant to the Chairman and Secretary thereafter; and Mr. Rimerman was Assistant Treasurer and Treasurer thereafter.

There are no family relationships between executive officers of the Company.

Item 9. Indemnification of Directors and Officers

Section 410 of The Pennsylvania Business Corporation Law (Act of May 5, 1933, P.L. 364) as amended, provides that a business corporation may indemnify directors and officers against liabilities they may incur in such capacities provided certain standards are met, including good faith and the belief that the particular action is in the best interests of the corporation. In general, this power to indemnify does not exist in the case of actions against a director or officer by or in the right of the corporation if the person otherwise entitled to indemnification shall have been adjudged to be liable for negligence or misconduct in the performance of his duties. The corporation is required to indemnify directors and officers against expenses they may incur in defending actions against themselves as such directors or officers if they are successful on the merits or otherwise in the defense of such actions. The Company's By-Laws provide mandatory indemnification of directors and officers of the Company to the fullest extent permitted by law.

Item 10. Financial Statements and Exhibits Filed

10(a): *Financial Statements and Schedules*

NOTE: Significant information required by Schedule IX—Long-Term Debt, Schedule XIII—Capital Stock, and Schedule XVI—Supplementary Income Statement Information, is submitted as part of the "Notes to Financial Statements". The following schedules are omitted as not applicable or not required—I; II; III; IV; VII; VIII; X; XI; XII; XIV; XV; XVII; XVIII; and XIX.

Financial statements and schedules of Philadelphia Electric Company (not consolidated) are omitted since the Company's total assets, exclusive of investments in and advances to its consolidated subsidiaries, as would be shown by its most recent year-end balance sheet if it were filed, constitute 75 percent or more of the total assets as shown by the most recent year-end consolidated balance sheet; and the registrant's total sales and revenues, exclusive of interest and dividends received from or its equity in the income of the consolidated subsidiaries, as would be shown by its income statement, for the most recent fiscal year if it were filed, constitute 75 percent or more of the total sales and revenues shown by the most recent annual consolidated income statements.

10(b): *Exhibits, Including Those Incorporated by Reference*

Exhibits Incorporated by Reference

The exhibits listed below, which have been filed heretofore with the Securities and Exchange Commission as exhibits to filings with the Commission, are incorporated herein by reference and are hereby identified as "basic documents" pursuant to Rule 12(b)-34.

Exhibit Number	Description of Documents
1	Thirty-eighth Supplemental Indenture, dated as of March 1, 1976, to Mortgage dated May 1, 1923. (Filed as exhibit to Form 8-K for February 1976).
2	Thirty-ninth Supplemental Indenture, dated as of August 1, 1976, to Mortgage dated May 1, 1923. (Filed as exhibit to Form 8-K for July 1976).
3	Calculation of the Common Equity Portion of Allowance for Funds Used During Construction. (Filed as exhibit to Registration Statement, Form S-7 (No. 2-58198), effective March 3, 1977.)

PART II

The Company has filed definitive copies of its Proxy Statement with the Commission, pursuant to Regulation 14-A. Therefore, items 11 to 15, inclusive, have been omitted.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this annual report to be signed on its behalf by the undersigned thereunto duly authorized.

PHILADELPHIA ELECTRIC COMPANY
Registrant

By /S/ J. H. AUSTIN, JR.
J. H. Austin, Jr.
Vice President and Chief Financial Officer

Date: March 31, 1977

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors
Philadelphia Electric Company
Philadelphia, Pennsylvania

We have examined the consolidated balance sheets of Philadelphia Electric Company and subsidiaries as of December 31, 1975 and 1976, and the related statements of earnings, retained earnings, and changes in financial position for the five years ended December 31, 1976, and the supporting schedules for the years 1975 and 1976. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of Philadelphia Electric Company and subsidiaries at December 31, 1975 and 1976 and the results of their operations and the changes in their financial position for the five years ended December 31, 1976, and the supporting schedules for the years 1975 and 1976 present fairly the information required to be included therein, and all are in conformity with generally accepted accounting principles applied on a consistent basis.

1900 Three Girard Plaza
Philadelphia, Pennsylvania 19102
February 9, 1977

COOPERS & LYBRAND

PHILADELPHIA ELECTRIC COMPANY AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

(Thousands of Dollars)

	Calendar Year				
	1972	1973	1974	1975	1976
Source of Funds:					
Net Income	$107,974	$122,867	$129,097	$143,925	$164,618
Charges (Credits) Not Affecting Funds (Note 1):					
Depreciation	60,515	64,271	77,802	91,221	97,980
Deferred Income Taxes, Net	7,306	9,601	28,313	24,472	28,882
Investment Tax Credits, Net	1,870	3,596	20,691	8,353	52,668
Allowance for Funds Used During Construction	(42,450)	(58,743)	(70,841)	(66,874)	(77,641)
Total from Operations	135,215	141,592	185,062	201,097	266,507
Sale of:					
Long-Term Debt (Note 4)	140,000	100,000	375,000	245,000	200,000
Preferred Stock (Note 2)	75,000	75,000	75,000	—	50,000
Common Stock (Note 3)	94,284	149,264	11,151	133,723	86,128
Increase (Decrease) in Short-term Debt	54,543	43,922	30,192	(69,970)	(100,728)
Proceeds from contract terminations—nuclear projects	—	—	—	18,750	64,000
Total	$499,042	$509,778	$676,405	$528,600	$565,907
Use of Funds:					
Additions to Utility Plant	$399,676	$494,187	$476,696	$361,368	$380,007
Allowance for Funds Used During Construction (Deduction) (Note 1)	(42,450)	(58,743)	(70,841)	(66,874)	(77,641)
Dividends on Preferred and Common Stock	89,781	106,406	120,730	131,465	147,097
Retirement of Long-Term Debt	18,130	14,290	69,313	95,193	63,271
Pollution Control Funds	38,002	(25,763)	(12,239)	—	—
Increase (Decrease) in Other Items of Working Capital	(508)	(17,122)	90,600	(2,032)	40,222
Other, Net	(3,589)	(3,477)	2,146	9,480	12,951
Total	$499,042	$509,778	$676,405	$528,600	$565,907

The notes to financial statements are an integral part of these statements.

PHILADELPHIA ELECTRIC COMPANY AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

(Thousands of Dollars)

	Calendar Year				
	1972	1973	1974	1975	1976
BALANCE AT BEGINNING OF PERIOD	$254,734	$270,971	$286,230	$293,747	$304,678
NET INCOME	107,974	122,867	129,097	143,925	164,618
	362,708	393,838	415,327	437,672	469,296
DIVIDEND DEDUCTIONS (Cash):					
Preferred Stock (at specified annual rates)	22,046	28,056	34,272	36,026	39,414
Common Stock ($1.64 per share in each period)	67,735	78,350	86,458	95,439	107,683
	89,781	106,406	120,730	131,465	147,097
EXPENSES OF CAPITAL STOCK ISSUES	1,956	1,202	850	1,529	1,009
TOTAL DEDUCTIONS	91,737	107,608	121,580	132,994	148,106
BALANCE AT CLOSE OF PERIOD	$270,971	$286,230	$293,747	$304,678	$321,190

The notes to financial statements are an integral part of these statements.

PHILADELPHIA ELECTRIC COMPANY AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEETS

(Thousands of Dollars)

ASSETS

	December 31 1975	December 31 1976
UTILITY PLANT, AT ORIGINAL COST (Note 1)—Schedule V:		
In service:		
Electric	$2,889,428	$3,034,654
Gas	272,944	278,181
Steam	48,919	50,877
Common, used in all services	115,855	118,085
	3,327,146	3,481,797
Less: Accumulated depreciation—Schedule VI	775,856	860,349
Net utility plant in service	2,551,290	2,621,448
Construction work in progress, including nuclear fuel of $47,511 and $76,128, respectively	1,118,471	1,265,443
	3,669,761	3,886,891
NONUTILITY PROPERTY AND OTHER INVESTMENTS	12,273	13,203
CURRENT ASSETS:		
Cash	17,429	23,847
Accounts receivable:		
Customers	113,647	137,920
Refundable federal income taxes (Note 6)	—	14,671
Other	26,157	15,428
Deferred fuel expense (Note 1)	17,933	19,854
Materials and supplies, at average cost:		
Fuel (coal, oil and gas)	61,522	58,722
Operating and construction	26,497	29,614
Prepayments	2,439	2,597
	265,624	302,653
DEFERRED DEBITS	13,805	14,669
TOTAL	$3,961,463	$4,217,416

The notes to financial statements are an integral part of these statements.

PHILADELPHIA ELECTRIC COMPANY AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEETS

(Thousands of Dollars)

LIABILITIES

	December 31 1975	December 31 1976
CAPITALIZATION:		
Shareholders' Equity:		
Preferred stock (Note 2)	$ 485,864	$ 535,072
Common stock (Note 3)	916,639	1,002,767
Other paid-in capital (Note 2)	1,498	1,713
Retained earnings	304,678	321,190
	1,708,679	1,860,742
Long-term debt (Note 4)	1,776,936	1,936,417
	3,485,615	3,797,159
CURRENT LIABILITIES:		
Short-term debt (Note 5):		
Bank loans	50,200	800
Commercial paper	57,754	6,426
Current maturities of long-term debt (Note 4)	60,894	36,898
Accounts payable	67,618	72,278
Taxes (Note 6):		
Accrued	34,650	20,170
Deferred (fuel expense)	9,476	10,531
Interest accrued	37,829	43,183
Dividends declared	12,457	11,570
Other	3,549	4,654
	334,427	206,510
COMMITMENTS AND CONTINGENT LIABILITIES (Note 9)		
DEFERRED CREDITS:		
Accumulated deferred income taxes (Notes 1 and 6)	83,001	110,829
Accumulated deferred investment tax credits (Notes 1 and 6)	40,203	87,957
Other	18,217	14,961
	141,421	213,747
TOTAL	$3,961,463	$4,217,416

The notes to financial statements are an integral part of these statements.

NOTES TO FINANCIAL STATEMENTS

(Thousands of Dollars)

1. Significant Accounting Policies:

General:

All utility subsidiary companies of Philadelphia Electric Company are wholly-owned and are included in the consolidated financial statements. The accounts are maintained in accordance with the uniform system of accounts prescribed by the regulatory authorities having jurisdiction.

Revenues:

Revenues are recorded in the accounts upon billing to the customer. Rate increases are billed from dates authorized or permitted to become effective by regulatory authorities.

Fuel Expense:

For financial reporting purposes the Company defers that portion of fuel expense which is recoverable under fuel adjustment clauses until it is subsequently billed as fuel adjustment revenue in order to effect a better matching of fuel expense with related revenue. Amounts of fuel expense recovered under the fuel adjustment clauses are charged to operations with equivalent credits to deferred fuel expense.

The Company's share (42.49%) of nuclear energy costs, relating to the Peach Bottom Station (owned by the Company and three contiguous utilities), reflects a zero net salvage value and is charged to fuel expenses on the basis of the number of units of thermal energy produced as they relate to the total thermal units to be produced over the estimated four-year life of the fuel.

Depreciation and Maintenance:

For financial reporting purposes, depreciation is provided over the estimated service lives of the plant on a straight-line basis. The annual depreciation provisions expressed as a per cent of average depreciable utility plant in service were approximately 2.67% for 1972 and 1973, 2.79% for 1974, 2.88% for 1975 and 2.97% for 1976.

The cost of maintenance and repairs is charged to operating expenses, including renewals of minor items of property and betterments of a minor nature. The cost of replacement of depreciable property units is charged to Utility Plant account and the recorded cost of the depreciable property units retired, less the related net salvage value, is charged to Accumulated Depreciation.

Income Taxes:

Deferred income taxes are provided for differences between book and taxable income to the extent permitted by the regulatory authorities for rate-making purposes.

Investment tax credits which reduce Federal income tax expense, are deferred by equivalent charges to income and subsequently amortized by credits to income over the estimated useful life of the related utility plant.

Allowance for Funds Used During Construction:

Allowance for funds used during construction is defined in the applicable regulatory system of accounts as "the net cost for the period of construction of borrowed funds used for construction purposes and a reasonable rate upon other funds when so used." For financial reporting purposes, the allowance is recorded as a non-cash charge to construction in the plant accounts with a corresponding non-cash credit to "Other Income," thereby deferring the estimated cost of the capital employed in construction work in progress. For income tax purposes, the allowance accrued is not included in taxable income, nor is the depreciation of the capitalized allowance a tax deductible expense. See Note A to "Consolidated Statements of Earnings".

NOTES TO FINANCIAL STATEMENTS—Continued

(Thousands of Dollars)

Unamortized Debt Expense, Discount and Premium:

The balances in these accounts are being amortized over the remaining lives of the respective long-term debt issues.

Retirement Plan:

The Companies have a noncontributory service annuity plan applicable to all regular employees. The annuities are determined under a formula which is applied uniformly to all employees regardless of position, and the amount depends on length of service and compensation earned to normal retirement age. The annuities are paid out of an irrevocable trust fund, to which the Companies make contributions to fund current and prior service costs over a twenty-year period. See Note 8.

2. Preferred Stock:

Preferred Stock, $100 par, cumulative, outstanding December 31, 1976:

Series	Refunding Restricted Prior to (a)	Current Redemption Price (b)	Number of Shares		Amount
			Authorized	Outstanding	
9.52% (Sold 1976)	5-1-86	$109.52	500,000	500,000 (c)	$ 50,000
9.50% (Sold 1974)	5-1-79	109.50	750,000	750,000	75,000
8.75%	8-1-80	110.00	650,000	650,000	65,000
7.85%	5-1-78	108.00	500,000	500,000	50,000
7.80% (Sold 1972)	5-1-77	108.00	750,000	750,000	75,000
7.75%		105.50	200,000	200,000	20,000
7.325% (Sold 1973)	5-1-81	106.45	750,000	750,000 (d)	75,000
7%	2-1-79	107.00	400,000	376,000 (e)	37,600
4.68%		104.00	150,000	150,000	15,000
4.4%		112.50	274,720	274,720	27,472
4.3%		102.00	150,000	150,000	15,000
3.8%		106.00	300,000	300,000	30,000
Unclassified			4,625,280	—	—
Total Preferred Stock			10,000,000	5,350,720	$535,072

(a) Prior to the date specified, none of the shares of each series indicated may be redeemed through refunding at an interest cost or dividend rate which is less than the dividend rate of such series.

(b) Redeemable, at the option of the Company, at the indicated dollar amounts per share, plus accrued dividends.

(c) 20,000 shares to be redeemed annually at $100 per share on May 1 of each year beginning in 1981 through the operation of a sinking fund.

(d) 30,000 shares to be redeemed annually at $100 per share on May 1 of each year beginning in 1979 through the operation of a sinking fund.

(e) 8,000 shares are being redeemed annually at $100 per share in each 12 month period beginning February 1, through the operation of a sinking fund. The Company purchased 4,515 shares in 1973, 6,370 shares in 1974, 5,200 shares in 1975 and 7,915 shares in 1976. The excess of the aggregate par value of reacquired shares over the aggregate purchase price is reflected in Other Paid-In Capital: $30 in 1973, $62 in 1974, $192 in 1975 and $215 in 1976. At December 31, 1976 the Company had applied 8,000 shares to the sinking fund obligation for the 12 month period beginning February 1, 1977.

3. Common Stock:

Common Stock, no par—authorized 100,000,000 shares; outstanding 64,196,338 shares at December 31, 1975 and 69,306,565 shares at December 31, 1976.

NOTES TO FINANCIAL STATEMENTS—Continued

(Thousands of Dollars)

Common Stock issued January 1, 1972 through December 31, 1976:

	Public Sales		Employee Stock Purchase Plan		Dividend Reinvestment and Stock Purchase Plan	
	Shares	**Proceeds**	**Shares**	**Proceeds**	**Shares**	**Proceeds**
1972	4,520,000	$ 92,660	71,494	$1,624	—	—
1973	7,338,119	142,980	93,993	1,966	219,761	$ 4,318
1974	—	—	158,060	2,060	791,374	9,091
1975	10,000,000	121,860	166,189	2,268	700,151	9,595
1976	4,000,000	67,680	210,567*	3,467*	899,660	14,981

* Includes 44,689 shares valued at $707 in connection with the Tax Reduction Act Stock Ownership Plan.

At December 31, 1976 there were 199,697 shares reserved for issuance under the Employee Stock Purchase Plan and 1,658,815 shares under the Dividend Reinvestment and Stock Purchase Plan.

4. Long-Term Debt:

Philadelphia Electric Company:

First and Refunding Mortgage Bonds (A):

Series	Due	Amount	Series	Due	Amount
5¾%	1977	$ 34,000	4½%	1994	$ 50,000
2⅞%	1978	25,000	9 %	1995	75,200
11 %	1980	125,000	8¼%	1996	80,000
2¾%	1981	30,000	6⅛%	1997	75,000
3¼%	1982	35,000	7½%	1998	100,000
3⅛%	1983	20,000	7½%	1999	100,000
3⅛%	1985	50,000	7¾%	2000	76,800
4⅜%	1986	50,000	11 %	2000 (sold 1975)	80,000
4⅝%	1987	40,000	11⅝%	2000 (sold 1975)	65,000
3¾%	1988	40,000	7⅜%	2001	80,000
5 %	1989	50,000	9⅝%	2002 (sold 1976)	100,000
6½%	1993	60,000	8½%	2004	125,000
			9⅛%	2006 (sold 1976)	100,000

Total First and Refunding Mortgage Bonds			1,666,000
Note Payable—Bank	(B)	1979	125,000
Pollution Control Note	5.5%	1977-97	37,000
Debentures	12¾%	1981 (sold 1975)	100,000
Debentures	4.85%	1986	26,994
Unamortized Debt Discount and Premium, Net			(5,263)
Total Philadelphia Electric Company			1,949,731
Philadelphia Electric Power Company—a subsidiary:			
Debentures	4½%	1995	23,698
Unamortized Debt Discount			(114)
Total Long-Term Debt (annual interest requirements $151,404)			1,973,315
Current Maturities Included in Current Liabilities			36,898
Long-Term Debt Included in Capitalization			$1,936,417

(A) Utility plant is subject to the lien of the Company's mortgage.

(B) Interest at a rate of 115% of the base rate of the bank on 90-day loans to responsible and commercial borrowers in effect from time to time through May 27, 1977 (effective rate 7.19%, December 31, 1976) and at accelerating rates up to 118% of such base rate through maturity.

Long-term debt issues due through December 31, 1981, are as follows:

	1977	1978	1979	1980	1981
Debt maturities	$35,000	$26,000	$126,000	$126,000	$131,500
Sinking fund requirements	1,898	4,594	4,800	4,800	8,800
	$36,898	$30,594	$130,800	$130,800	$140,300

NOTES TO FINANCIAL STATEMENTS—Continued

(Thousands of Dollars)

5. Short-Term Debt:

The average short-term borrowings during 1975 aggregated $97,044 at an average rate of 7.85% and during 1976 aggregated $51,131 at an average rate of 6.74%. The maximum short-term borrowings outstanding were $183,900 in January, 1975 and $132,200 in February, 1976. The average rate of interest on short-term borrowings at December 31, 1976 was 6.25% for bank loans and 4.73% for commercial paper. As of December 31, 1976 the Company had informal lines of credit with banks aggregating $212,575. The Company generally does not have formal compensating balance arrangements with these banks. The Company maintains deposits with banks for working funds for normal operations.

6. Taxes on Income:

	1972	1973	1974	1975	1976
Included in operating expenses:					
Current income taxes					
[illegible]	$23,541	$24,335	$10,986	$42,161	$ 6,147
[illegible]	7,890	7,608	7,167	11,351	12,901
[illegible]	31,431	31,943	18,153	53,512	19,048
[illegible]	[illegible]	7,566	23,140	19,955	23,447
[illegible]	[illegible]	2,035	5,173	4,517	5,435
[illegible]	[illegible]	9,601	28,313	24,472	28,882
[illegible]	[illegible]	3,596	20,691	8,353	52,668
[illegible]	[illegible]	35,497	54,817	70,469	82,262
[illegible]	[illegible]	9,643	12,340	15,868	18,336
[illegible]	[illegible]	45,140	67,157	86,337	100,598
[illegible]	306	(2,682)	(20,580)	(18,096)	(19,684)
[illegible]	129	(692)	(4,861)	(4,175)	(4,483)
[illegible]	435	(3,374)	(25,441)	(22,271)	(24,167)
Total income tax provisions:					
Federal	31,332	32,815	34,237	52,373	62,578
State	9,710	8,951	7,479	11,693	13,853
Total	$41,042	$41,766	$41,716	$64,066	$ 76,431

For federal income tax purposes the 1976 investment tax credits will eliminate current federal income taxes payable, $39,635, and result in a claim for refund of prior years' federal income taxes of $14,671.

NOTES TO FINANCIAL STATEMENTS—Continued

(Thousands of Dollars)

The aforementioned income tax provisions differ from amounts computed by applying the Federal statutory tax rate to adjusted income before income taxes for the following reasons:

	1972	1973	1974	1975	1976
Net Income	$107,974	$122,867	$129,097	$143,925	$164,618
Total income tax provisions	41,042	41,766	41,716	64,066	76,431
Income before income taxes	149,016	164,633	170,813	$207,991	$241,049
Deduct—Allowance for Funds used during construction (non-taxable)	(42,450)	(58,743)	(70,841)	(66,864)	(77,641)
Adjusted income before income taxes	$106,566	$105,890	$ 99,972	$141,127	$163,408
Income taxes on above at Federal statutory rate (48%)	$ 51,152	$ 50,827	$ 47,987	$ 67,741	$ 78,436
Increase (Decrease) due to:					
Excess of tax depreciation over book depreciation not normalized	(9,193)	(8,139)	(4,736)	(4,229)	(5,285)
State income tax, net of Federal income tax benefits	5,794	5,991	6,481	8,249	9,812
Amortization of investment tax credits previously deferred	(2,195)	(1,698)	(2,530)	(2,490)	(1,638)
Other, net	(4,516)	(5,215)	(5,486)	(5,205)	(4,894)
Total income tax provisions	$ 41,042	$ 41,766	$ 41,716	$ 64,066	$ 76,431
Provisions for income taxes as a percent of:					
Income before income taxes	27.5%	25.4%	24.4%	30.8%	31.7%
Adjusted income before income taxes	38.5%	39.4%	41.7%	45.4%	46.8%

Provision for deferred income taxes consist of the following tax effects of timing differences between tax and book income:

	1972	1973	1974	1975	1976
Depreciation	$8,412	$10,707	$18,307	$26,030	$29,770
Deferred fuel expense	—	—	11,471	(1,995)	1,054
Other	(1,106)	(1,106)	(1,465)	437	(1,942)
	$7,306	$ 9,601	$28,313	$24,472	$28,882

7. Taxes Other Than Income:

	1972	1973	1974	1975	1976
Gross receipts	$29,531	$33,129	$43,407	$48,263	$52,103
Capital stock	11,572	10,595	9,087	10,667	10,817
State and local realty	6,755	7,138	7,138	10,687	11,127
Other	5,122	6,491	7,511	7,950	8,597
	$52,980	$57,353	$67,143	$77,567	$82,644

8. Retirement Plan:

Annuities under the Companies' Retirement Plan are funded through a Trust Fund. Contributions by the Companies aggregated $8,020 in 1972, $8,638 in 1973, $9,856 in 1974, $14,315 in 1975 and $15,225 in 1976. Of such amounts approximately 75 percent was charged to operating expense and 25 percent, associated with construction labor, was included in the cost of new utility plant. Based upon actuarial assumptions, the estimated prior service liability of the Plan was substantially fully funded at December 31, 1976.

9. Commitments and Contingent Liabilities:

The Companies have incurred substantial commitments in connection with their construction program. Construction expenditures are estimated to be $414,000 for 1977 and $1,338,000 for 1978-80.

NOTES TO FINANCIAL STATEMENTS—Continued

(Thousands of Dollars)

The Price-Anderson Act places a "Limit of Liability" of $560,000 on each nuclear generating facility for public liability claims that could arise from a nuclear incident. The owners insure this exposure by purchasing the maximum private insurance of $125,000 and the remainder is provided by indemnity agreements with the Nuclear Regulatory Commission (NRC); however, beginning in August 1977, the indemnity by the NRC will decrease, and, in the event of a nuclear incident, the Company, to the extent of its ownership participation, could be assessed $5,000 for each reactor owned (maximum $10,000 per reactor in a year). For property damage to the nuclear plant facilities which could arise from an incident at the Peach Bottom Station, the Company and its co-owners have private insurance up to $175,000; for the Salem Station, the Company, through the operator of the Station, is a member of Nuclear Mutual Limited (NML) which provides for coverage up to $150,000. In the event of a loss at any plant insured by NML, the Company may be subject to a maximum of fourteen times its annual premium (currently not material for any one incident). The Company is a self-insurer, to the extent of its ownership interest, for any property loss in excess of the aforementioned amounts.

The Company's proportionate share of a commitment for nuclear fuel at the Peach Bottom Station as of December 31, 1976, was $45,373. An independent fuel company has been authorized to acquire and own up to a maximum of $150,000 of such fuel at any one time and will sell the energy therefrom to the Company, as the operator of the Station.

Minimum rental commitments, including nuclear fuel contract payments, as of December 31, 1976, under all noncancellable agreements are as follows:

	Total		Total
1977	$18,500	1982-86	$27,600
1978	17,800	1987-91	26,900
1979	17,000	1992-96	23,500
1980	15,700	Remainder	3,800
1981	4,900		

The minimum rental commitments, aggregating $155,700 at December 31, 1976, are applicable to the following types of leased property: nuclear fuel $51,000 (estimated to be charged to operations over a four-year period); combustion turbine generators $80,400; computer equipment $3,600; other, principally rights-of-way $20,700.

The present value of minimum lease commitments at December 31, 1976, with respect to noncapitalized financing leases (as defined by the Securities and Exchange Commission), is less than five percent of the sum of the Capitalization of the Companies and such present value. The impact on net income for any year if all noncapitalized financing leases were capitalized, related assets amortized on a straight-line basis and interest cost accrued on the basis of the outstanding lease liability, is less than three percent of the average net income for the most recent three years.

Rentals charged to operating expenses were as follows:

	Rents	Nuclear Fuel	Total
1972	$ 8,676	—	$ 8,676
1973	12,549	—	12,549
1974	14,006	$ 4,533	18,539
1975	13,399	12,455	25,854
1976	11,503	13,790	25,293

See information with respect to possible revenue refunds and other matters set forth under "Business—Environmental Regulations", "Business—Rate Matters" and "Legal Proceedings".

(Thousands of Dollars)

10. Replacement Cost Information (Unaudited):

The impact of inflation has resulted in replacement costs of utility plant in service that are significantly greater than the recorded original cost. Utility plant in service at December 31, 1976 stated at estimated replacement cost and at recorded cost is summarized as follows:

	Replacement Cost	Recorded Cost
Utility plant in service	$7,780,000	$3,481,797
Less accumulated depreciation	2,770,000	860,349
Net utility plant in service	$5,010,000	$2,621,448

The replacement cost of utility plant does not necessarily reflect the current value of the assets, nor does the excess of replacement cost over recorded cost represent additional equity for the Company's common shareholders. Replacement cost of utility plant is the Company's estimate of the current cost to replace existing plant with similar plant of most recent design as of December 31, 1976. This replacement cost information should not be relied up to represent the Company's program for replacement of utility plant in service, nor should this replacement cost information be considered representative of the actual costs to be incurred by the Company upon replacement of utility plant in service. Users of this information should recognize the imprecise nature of these estimates and the many subjective judgments required in replacement cost estimation. This replacement cost information should not be used to evaluate the effect of inflation upon the Company's financial position and results of operations, as reported.

The replacement cost of non-nuclear electric production plant was estimated by applying indices based on the cost experience of the most recently installed units to the original cost of the generating capacity by type of power production. This cost includes known technological improvements, including environmental and pollution control facilities under construction or authorized. The replacement cost of nuclear production plant was determined by an engineering estimate.

The replacement costs of electric transmission and distribution plant were determined by utilizing various indices (Company, industry and governmental) and where appropriate the concept of modern plant construction.

Gas production and distribution plant and steam plant were generally trended to current replacement cost utilizing the Handy-Whitman Index of Public Utility Construction Costs. Common plant was trended principally to current replacement cost using the BLS indices for items such as office furniture, transportation equipment, and other general plant. Buildings were restated by trending their cost by the Boeckh Building Cost Index.

The accumulated depreciation related to the replacement cost was calculated using current life estimates and retirement dispersion curves, applied to the estimated replacement cost of utility plant by years in service.

Depreciation expense on a replacement cost basis is estimated at $211,000 for the year 1976 (computed by the use of current lives and the straight line method applied to the average of beginning and end of year replacement cost) compared to $97,980 on a recorded cost basis.

The estimated replacement cost of fuel inventory at December 31, 1976 approximates recorded costs. A portion of materials and supplies will be capitalized in the construction of utility plant; the replacement cost of the remaining materials and supplies used in operations and maintenance is not significantly greater than the recorded costs reflected in the consolidated financial statements.

Replacement of plant in service could also result in other cost changes, such as fuel, operation or maintenance. The Company believes future cost changes resulting from higher replacement costs which are caused by inflation will be recoverable in rates charged to customers.

PHILADELPHIA ELECTRIC COMPANY AND SUBSIDIARY COMPANIES

SCHEDULE V—UTILITY PLANT

(Thousands of Dollars)

Column A	For The Years Ended December 31	
	1975	1976
Classification	Column F Balance End of Year	
Electric		
Plant In Service		
Intangible	$ 567	$ 567
Production	1,428,081	1,525,181
Transmission	406,564	423,550
Distribution	1,017,323	1,047,489
General	23,471	23,836
Construction Work in Progress	1,066,284	1,186,926
Plant Held For Future Use	13,423	14,032
	3,955,713	4,221,581
Nuclear Fuel, At Amortized Cost	47,511	76,128
Total	4,003,224	4,297,709
Gas		
Plant In Service		
Intangible	50	50
Manufactured Gas Production	19,877	17,636
Storage	13,337	14,369
Distribution	238,548	244,956
General	1,101	1,138
Construction Work In Progress	710	653
Plant Held For Future Use	32	32
Total	273,655	278,834
Steam		
Plant In Service		
Undistributed	31	31
Production	14,663	14,640
Distribution	34,194	36,176
General	30	30
Construction Work In Progress	1,923	1,443
Total	50,841	52,320
Common Utility		
Plant In Service		
Intangible	677	677
Land & Land Rights	2,039	1,989
Structures And Improvements	71,860	71,862
Office Furniture & Equipment	6,758	8,304
Transportation Equipment	24,547	25,070
Tools & Miscellaneous Equipment	8,394	8,554
Construction Work In Progress	2,042	292
Plant Held For Future Use	1,580	1,629
Total	117,897	118,377
Total	$4,445,617	$4,747,240

The information required by Columns B, C, D and E are omitted since neither the total additions nor the total deductions during the period amount to more than 10% of the closing balance of total utility plant.

	Totals	Totals
Column B, Balance at Beginning of Period	$4,123,897	$4,445,617
Column C, Additions at Cost	361,368	380,007
Column D, Retirements	39,855	12,448
Column E, Other Changes—add (deduct) (includes proceeds of contract termination in 1976 of $64,000)	207	(65,936)

PHILADELPHIA ELECTRIC COMPANY AND SUBSIDIARY COMPANIES

SCHEDULE VI—ACCUMULATED DEPRECIATION OF UTILITY PLANT

(Thousands of Dollars)

FOR YEAR ENDED DECEMBER 31, 1975

Column A	Column B	Column C	Column D	Column E	Column F
Description	Balance Beginning of Period	Depreciation	Retirements	Other Changes Add (Deduct) (1)	Balance End of Period
ELECTRIC					
Production	$337,459	$40,399	$27,384	$5,566	$356,040
Transmission	77,632	8,604	1,141	(1,146)	83,949
Distribution	229,846	29,682	8,476	308	251,360
General	3,624	590	(2,000)	234	6,448
Total	648,561	79,275	35,001	4,962	697,797
GAS					
Production	4,562	650	33	(17)	5,162
Distribution	28,725	6,638	2,388	(664)	32,311
Storage Plant	1,419	637	837	—	1,219
General	105	53	—	—	158
Total	34,811	7,978	3,258	(681)	38,850
STEAM HEATING PLANT	15,862	1,362	90	239	17,373
COMMON					
General	18,574	4,421	1,502	343	21,836
Total	$717,808	93,036	$39,851	$4,863	$775,856
Transportation charged to clearing accounts		(2,567)			
Amortization of Peach Bottom #1 loss		1,443			
Amortization of Anti-trust settlement proceeds		(646)			
Depreciation of plant held for future use		(45)			
Depreciation charged to operating expenses		$91,221			

(1) Other Changes:

Removal cost net of salvage	$(1,823)
Transfer of unrecovered cost of Peach Bottom Nuclear Station—Unit #1 to extraordinary property losses to be amortized over a five year period	6,365
Accumulated provision applicable to utility plant sold	217
Miscellaneous	104
	$ 4,863

PHILADELPHIA ELECTRIC COMPANY AND SUBSIDIARY COMPANIES

SCHEDULE VI—ACCUMULATED DEPRECIATION OF UTILITY PLANT

(Thousands of Dollars)

FOR YEAR ENDED DECEMBER 31, 1976

Column A	Column B	Column C	Column D	Column E	Column F
Description	Balance Beginning of Period	Depreciation	Retirements	Other Changes Add (Deduct) (1)	Balance End of Period
ELECTRIC					
Production	$356,040	$ 43,514	$ 990	$(1,990)	$396,574
Transmission	83,949	9,369	356	(44)	92,918
Distribution	251,360	32,220	5,986	(515)	277,079
General	6,448	632	57	149	7,172
Total	697,797	85,735	7,389	(2,400)	773,743
GAS					
Production	5,162	627	1,284	(42)	4,463
Distribution	32,311	6,766	1,612	(947)	36,518
Storage Plant	1,219	58	5	—	1,272
General	158	676	—	—	834
Total	38,850	8,127	2,901	(989)	43,087
STEAM HEATING PLANT	17,373	1,497	105	31	18,796
COMMON					
General	21,836	4,712	2,028	203	24,723
Total	$775,856	100,071	$12,423	$(3,155)	$860,349

Transportation charged to clearing accounts	(2,843)
Amortization of Peach Bottom #1 loss	1,443
Amortization of Anti-trust settlement proceeds	(646)
Depreciation of plant held for future use	(45)
Depreciation charged to operating expenses	$ 97,980

(1) Other Changes:

Removal cost net of salvage	$(2,288)
Transfer to accumulated depreciation of nonutility property	(900)
Miscellaneous	33
	$(3,155)

LISTING APPLICATION TO
NEW YORK STOCK EXCHANGE, INC.

C-4866
December 12, 1978

PHILADELPHIA ELECTRIC COMPANY

2,000,000 ADDITIONAL SHARES OF COMMON STOCK

Dividend Reinvestment and Stock Purchase Plan

Number of Shares of Common Stock Issued and outstanding as of November 9, 1978—76,094,196

Number of Holders of Common Stock of record November 9, 1978—241,795

DESCRIPTION OF TRANSACTION

Philadelphia Electric Company (the "Company") is offering to holders of its Common Stock and Preferred Stock the opportunity to purchase additional new shares of the Company's Common Stock through a continuing Dividend Reinvestment and Stock Purchase Plan (the "Plan"). Reference is made to the Prospectus, dated December 12, 1978, which is incorporated herein and made a part hereof, for a full description of the terms of the offering and the use of the proceeds thereof.

AUTHORITY FOR ISSUANCE

The Board of Directors of the Company at a meeting held on October 23, 1978, authorized the issuance of the Additional Common Stock as contemplated by the Prospectus. No shareholder action was required.

RECENT DEVELOPMENTS

There have been no important developments materially affecting the Company or its business, notice of which has not already been released to the public.

OPINION OF COUNSEL

Edward G. Bauer, Jr., Esq., Vice President and General Counsel of the Company, 2301 Market Street, P.O. Box 8699, Philadelphia, Pennsylvania 19101, has given his opinion to the effect that the shares of Additional Common Stock have been duly authorized by the Company and in accordance with the laws of the Commonwealth of Pennsylvania, in which state the Company is duly organized and existing and has its principal place of business; that all requisite approvals and consents to the issue and delivery of such shares have been granted by the Pennsylvania Public Utility Commission under the Pennsylvania Public Utility Law and by

the Securities and Exchange Commission under the Securities Act of 1933, as amended; that such shares, when issued, will be validly issued, fully paid and non-assessable; that under the applicable laws of the Commonwealth of Pennsylvania, the holders of the Additional Common Stock will not be liable to the Company or any creditor thereof with respect to such shares; and that in connection with the issue by the Company of certificates for shares of its Common Stock bearing the facsimile signature of A. M. Newill, Transfer Agent (an Assistant Treasurer of the Company), the use of such facsimile signature has been duly and properly authorized and adopted, that the use of such facsimile signature is not inconsistent with the Articles of Incorporation and By-Laws of the Company, that such use is valid and effective under the laws of Pennsylvania and that the requisite Indemnification Agreement has been duly approved, authorized, executed and delivered, and is effective and binding upon the Company in accordance with its terms.

A Securities Certificate in respect to the issuance of the Additional Common Stock, filed November 9, 1978, pursuant to Article VI of the Public Utility Law of the Commonwealth of Pennsylvania, was ordered registered by the Pennsylvania Public Utility Commission on December 7, 1978.

A Registration Statement on Form S-16 (Registration No. 2-63047), filed with the Securities and Exchange Commission under the Securities Act of 1933 on November 15, 1978, became effective on December 12, 1978.

PHILADELPHIA ELECTRIC COMPANY

By: J. F. PAQUETTE, JR.
Vice President

The New York Stock Exchange, Inc. hereby authorizes the listing, upon official notice of issuance, of 2,000,000 additional shares of Common Stock, without par value, of Philadelphia Electric Company pursuant to the Dividend Reinvestment and Stock Purchase Plan as hereinabove described, making a total of 78,665,077 shares of Common Stock authorized to be listed.

RICHARD A. GRASSO, Vice President
Corporate Services Department

WILLIAM M. BATTEN, Chairman of the Board
New York Stock Exchange, Inc.

PROSPECTUS

Philadelphia Electric Company

DIVIDEND REINVESTMENT AND STOCK PURCHASE PLAN

2,232,752 Shares of Common Stock
(Without Par Value)

The Dividend Reinvestment and Stock Purchase Plan (Plan) provides common and preferred shareholders of record with a convenient method of:

—automatically reinvesting their dividends in new shares of common stock of Philadelphia Electric Company (Company); and

—making cash investments of up to $3,000 per quarter in new shares of common stock on each common stock dividend payment date.

The Company administers the Plan at its own expense and no brokerage fee or commission is charged on the purchase of shares under the Plan.

A description of the Plan is presented in this Prospectus.

The Purchase price of the common stock will be the closing price (New York Stock Exchange—Composite) for the Company's common stock on the dividend payment date (see "Reinvestment and Purchase Price," Question 10). See "DIVIDENDS AND PRICE RANGE" for details as to recent market prices of the Company's common stock.

Shareholders may also have the Custodian hold for safekeeping, at no charge, common and preferred stock presently owned by them.

Participation in the Plan is entirely optional.

In the opinion of Drinker Biddle & Reath, the shares of Additional Common Stock offered hereby are exempt from existing personal property taxes in Pennsylvania.

Information regarding the Plan can be obtained by writing to Philadelphia Electric Company, Stock Transfer Section, P.O. Box 8699, Philadelphia, Pa. 19101, or by telephoning (215) 841-5786.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION NOR HAS THE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

December 12, 1978

THE COMPANY

The principal executive offices of the Company are located at 2301 Market Street, Philadelphia, Pennsylvania. Its mailing address is P.O. Box 8699, Philadelphia, Pennsylvania 19101, and its telephone number is (215) 841-4000.

DESCRIPTION OF DIVIDEND REINVESTMENT AND STOCK PURCHASE PLAN

PURPOSE

1. What is the purpose of the Plan?

The Plan gives to holders of record of the Company's common and preferred stock the opportunity to reinvest their dividends and/or make optional cash investments to purchase new shares of *common stock* of the Company without payment of any brokerage commission, service charge or other expense.

FEATURES

2. What are the features of the Plan?

Dividend Reinvestment—The purchase of full and fractional shares of additional common stock through the automatic reinvestment of dividends on participating shares of common or preferred stock.

Cash Investment Option—The opportunity for shareholders of record to invest up to $3,000 per quarter in full and fractional shares of common stock.

Custodial Service Option—A service offered to all shareholders of record to deposit their share certificates with the Custodian for safekeeping at no charge.

ADMINISTRATION

3. Who administers and interprets the Plan for participants?

The Company administers and interprets the Plan for participants, keeps the records, sends statements of account to participants and performs other duties relating to the Plan. There are no brokerage fees in connection with reinvestment of dividends or optional cash investments and the Company absorbs all administrative expenses. However, charges will be incurred by a participant upon the sale of his shares.

4. Who is the Custodian for the Plan?

First Pennsylvania Bank N. A., Custodian, holds the shares purchased under the Plan and the shares deposited for safekeeping.

PARTICIPATION

5. Who is eligible to participate?

All holders of record of the Company's common and preferred stock are eligible to participate. A beneficial owner of the Company's stock whose shares are registered

in a name other than his own (such as in the name of a bank or broker) must have those shares transferred to his own name before he can participate.

6. How does an eligible shareholder participate?

A shareholder may join the Plan by completing and signing the Authorization Form and returning it to the Company. A postage prepaid envelope is provided for this purpose.

The form is sent to all shareholders, and additional forms may be obtained at any time from Philadelphia Electric Company, Stock Transfer Section, P. O. Box 8699, Philadelphia, Pa. 19101; telephone number (215) 841-5786.

7. When may a shareholder join?

A shareholder may join at any time. Dividends on all participating shares will be reinvested on the next dividend payment date after the Company receives the Authorization Form, provided the form is received on or before the record date. Otherwise, reinvestment will begin on the next subsequent dividend payment date. In the past, common stock dividends have been paid the last business day of March, June and September and about December 20. Preferred stock dividends are payable on the first day of February, May, August and November. The record date normally precedes the dividend payment date by about a month.

8. What is the Authorization Form?

The Authorization Form is the enrollment form for the Plan. By checking the appropriate box, the shareholder directs the Company to reinvest dividends and/or invest cash in additional shares of common stock. *All dividends on shares purchased through reinvestment of dividends or cash investment are automatically reinvested in shares of the Company's common stock until the shares are sold or withdrawn, or the Plan is terminated.*

9. If a participant acquires shares of the Company's stock from a source outside the Plan, will they be included in the Plan?

If those shares are registered in the same name as his shares in the Plan, they will be included in the Plan. If the new shares are registered in another name, a new Authorization Form must be returned to the Company in order to include them.

REINVESTMENT AND PURCHASE PRICE

10. How will purchases be made and at what price?

On each dividend payment date the Company will pay to the Custodian the total amount of dividends payable on shares held under the Plan, and the Custodian will use that amount to purchase shares of common stock from the Company for the accounts of participants. On common stock dividend payment dates, cash held

under the Cash Investment Option will also be invested. The purchase price will be the closing price (NYSE-Composite) for the Company's common stock on the dividend payment date (the Purchase Price). If the New York Stock Exchange is closed on the dividend payment date, the Purchase Price will be the closing price on the next trading day.

11. How many shares of common stock will be purchased for a participant?
Each participant's account will be credited, as of the dividend payment date, with the number of full and fractional shares purchased by the dividends paid on participating shares plus any optional cash investments.

CASH INVESTMENT OPTION

12. What is the Cash Investment Option?

All common and preferred shareholders of record have the option to invest up to $3,000 per quarter in common stock of the Company *on a common stock dividend payment date* at the Purchase Price. The same amount of money need not be invested each time and there is no obligation to make any cash investment.

13. How are the cash investments made?

A cash investment is made by forwarding a check or money order payable to *Philadelphia Electric Company (or PECO)* with a completed Authorization Form (or the cash investment portion of the periodic account report) to Philadelphia Electric Company, Stock Transfer Section, P. O. Box 8699, Philadelphia, Pa. 19101, within the 45-day period immediately preceding any common stock dividend payment date. On the payment date, the full amount of the cash will be invested in full and fractional shares of common stock. Cash investments are made *only* on common stock dividend payment dates. In order to minimize the accumulation of funds, the Company *will return to the shareholder* cash payments received during any time other than the 45-day period prior to the dividend payment date.

14. Will interest be paid on cash investments received prior to the investment date?

No. For that reason, the Company urges shareholders to send their investments so as to reach the Company prior to, but as close as possible to, a common stock dividend payment date. Of course, sufficient time should be allowed for the payment to reach the Company.

15. When and how can a shareholder cancel his investment?

Subsequent to each dividend payment date, a participant has the option for a limited time to cancel the reinvestment of that dividend and to receive it in cash, together with a refund of any cash investment on such dividend payment date under the Cash Investment Option. In order to exercise the cancellation option, a written request

must be received by the Company on or before the 14th day following the investment date. This time interval is provided to enable a participant to review the Company's interim report to shareholders and to evaluate his investment for that quarter and his continued participation in the Plan. In addition, the Company will return cash on deposit under the Cash Investment Option prior to investment to shareholders so requesting.

16. **Who holds shares under the Cash Investment Option?**
Shares purchased through cash investments will be held by the Custodian and dividends on such shares will be reinvested. Shares may be withdrawn from the Plan at any time and if the request for issuance accompanies the cash investment, a certificate for full shares purchased will be issued together with a check for the net proceeds from the sale of any fractional shares. The certificate and check will be forwarded approximately *three weeks* after the investment date.

17. **How can a shareholder purchase a specific number of shares?**
A shareholder can utilize the Cash Investment Option and the withdrawal feature to obtain a specific number of shares. To do this, the shareholder should complete the cash investment portion of the Authorization Form or the periodic account report and return it to the Company with a check or money order sufficient to purchase *at least* the desired number of shares. At the same time, the shareholder should enclose instructions requesting (a) withdrawal of the desired number of shares from the Plan immediately after the purchase; and (b) the sale of any full or fractional shares in excess of that number. On the investment date, the total cash will be invested. A certificate for the shares requested will be issued to the shareholder and the remaining full and fractional shares will be converted to cash on the basis of the closing price (NYSE-Composite) of the Company's common stock on the day following the investment date. The proceeds from the sale, less any brokerage fees and expenses, will be sent to the shareholder.

DIVIDENDS ON FRACTIONAL SHARES

18. **Will participants be credited with dividends on fractional shares?**
Yes. Dividends on fractional shares will be credited to participants' accounts and shown on their quarterly statements.

CERTIFICATES; TRANSFERS; WITHDRAWAL OF SHARES

19. **When will certificates be issued to participants for shares of common stock purchased under the Plan?**
Certificates for shares purchased under the Plan will be issued to participants *only upon written request*. Shares purchased through dividend reinvestment or cash invest-

ment will be issued and held in the name of the Custodian until the shareholder withdraws or until he gives the Company written instructions to deliver certificates for full shares held under the Plan. The shareholder may obtain a certificate for any number of full shares held for him by the Custodian and still remain in the Plan.

20. In whose name will certificates be registered when issued to participants?

Unless the participant otherwise directs, certificates will be issued in the name in which the participant's account is maintained. If a participant requests a certificate to be issued in a name other than that of the account registration, his request must bear his own signature *guaranteed* by a commercial bank or member firm of the New York Stock Exchange. If the account is registered in multiple names, *all* signatures must be guaranteed. Upon a participant's death, the Company will follow the instructions of the decedent's personal representative upon submission of appropriate proof of his authority.

21. Can shares in the Plan be pledged as collateral?

No. To be pledged, shares must first be withdrawn from the Plan.

22. How can a shareholder have his stock certificates held by the Custodian for safekeeping?

Any shareholder can have his certificates for shares of the Company's common or preferred stock held in the name of the Custodian for safekeeping, free of charge.

Certificates for safekeeping should be sent with the completed Certificate Deposit Form *by registered mail* to Philadelphia Electric Company, Stock Transfer Section, P. O. Box 8699, Philadelphia, Pa. 19101. *These certificates should not be endorsed.* The shareholder will receive a receipted copy of the Certificate Deposit Form from the Company for record keeping purposes.

23. When a participant transfers or sells all shares not included in the Plan, can he continue to reinvest dividends on his Plan account shares?

Yes. The Company will continue to reinvest all dividends on the shares credited to the participant's Plan account until he requests complete withdrawal in writing. Optional cash investments can also continue to be made.

24. Can a participant withdraw some of his shares from the Plan and still remain in the Plan?

Yes. As long as he retains a balance in his Plan account (full or fractional shares), he will continue as a participant and dividends on his shares remaining in the Plan will be reinvested until he withdraws all shares.

COMPLETE WITHDRAWAL FROM THE PLAN

25. How does a participant completely withdraw from the Plan?

A participant may withdraw from the Plan at any time and terminate his participation upon written notice to Philadelphia Electric Company, Stock Transfer Section, P.O. Box 8699, Philadelphia, Pa. 19101. Upon receipt of such notice or termination of the Plan by the Company, a stock certificate will be issued in the shareholder's names, or the shares in his Plan account will be sold for him, if he so requests, and the Company will return any uninvested cash submitted by the participant under the Cash Investment Option.

If a participant requests that all or part of his shares be sold, or issued in another person's name, such request must bear the signature of the participant *guaranteed* by a commercial bank or member firm of the New York Stock Exchange. If the account is registered in multiple names, all signatures must be guaranteed. Fractional shares will be converted to cash on the basis of the closing market price (NYSE-Composite) of the Company's stock on the next business day following receipt of such request. The proceeds will be reduced by any brokerage fees and expenses.

26. Can a participant reenter the Plan after he has terminated his participation?

Yes. A shareholder may rejoin at any time, but he must submit a new Authorization Form.

OTHER INFORMATION

27. What type of reports will be sent to participants?

Each participant will receive a statement of his account mailed within one week after the investment date. In addition, each participating shareholder will receive copies of the Company's annual and quarterly reports, proxies and proxy statements as well as correspondence sent to shareholders generally. Each participant will also receive annually a current prospectus for the Plan.

28. What is the effect on participants of a rights offering, stock dividend or stock split?

If the Company sells additional common stock through a rights offering, the rights will be forwarded to the participating shareholders for their disposition. Likewise, any stock dividend or shares resulting from a stock split will be credited to participants' accounts.

29. What are the Federal income tax consequences of participation in the Plan?

In general, participants will have the same Federal income tax consequences as non-participants with respect to dividends on their shares. A participant will be treated for Federal income tax purposes as having received, on each dividend payment date, the full amount of the cash dividends for that dividend payment date with respect to his shares, even though that amount is not actually received in cash by him, but instead is applied to the purchase of new shares for his account. A participant will

not realize any taxable income for Federal income tax purposes when he receives certificates for whole shares credited to his Plan account, either upon his request for such certificates or upon withdrawal from or termination of the Plan. However, a participant who receives, upon withdrawal from or termination of the Plan, a cash payment for any full shares then sold for him or for a fractional share then held in his account will realize a capital gain or loss measured by the difference between the amount of the cash which he receives and the price at which such a share or fraction was credited to his account reduced by the portion, if any, of dividends received thereon constituting a return of capital for Federal income tax purposes. See "DIVIDENDS AND PRICE RANGE".

30. Can the Plan be changed or discontinued?

The Company reserves the right to suspend, modify or terminate the Plan at any time. Participants will be notified of any such suspension, termination or modification.

31. How will Plan shares be voted at the annual meeting of shareholders?

The Custodian will vote shares in accordance with instructions received from participants and those shareholders whose shares are held for safekeeping. If a proxy is not returned, the shares will not be voted.

32. How many shareholders are participating in the Plan?

As of November 30, 1978, 33,682 common shareholders, or 14 percent of all common shareholders and 885 preferred shareholders, or 3 percent of all preferred shareholders were enrolled in the Plan. Since its inception in March 1973, participants have invested $74 million to purchase 4,537,009 shares of common stock through the Plan.

USE OF PROCEEDS

The net proceeds from the sale of the additional common stock offered hereby will be applied to finance the Company's construction program.

RECENT DEVELOPMENTS

Recent Results of Operations

The information shown below is unaudited but in the opinion of the Company includes all adjustments (consisting of normal recurring accruals) necessary for a fair presentation of such amounts.

	Thousands of Dollars			
	Ten Months Ended		Twelve Months Ended	
	October 31 1978	October 31 1977	October 31 1978	October 31 1977
Operating revenue	$1,199,029	$1,173,474	$1,420,317	$1,378,197
Net income	$ 142,216	$ 150,709	$ 164,946	$ 181,634
Earnings applicable to common stock	$ 106,201	$ 116,779	$ 121,975	$ 140,918
Average shares outstanding (thousands)	75,246	70,132	75,103	69,957
Earnings per average share (dollars)	$1.41	$1.67	$1.62	$2.01

Revenue for the ten and twelve months ended October 31, 1978 increased two and three percent respectively over the corresponding periods in 1977 due to higher electric, gas and steam sales, rate increases and higher gas fuel adjustment revenue.

Common stock earnings for the ten and twelve months ended October 31, 1978 declined 9 and 13 percent respectively from the previous year. Earnings per share were $1.41 and $1.62, down $0.25 and $0.39 from the same periods last year with seven percent more average shares outstanding. The decline in earnings can be directly attributed to the fact that the Salem #1 nuclear generating unit, in which the Company has a 43 percent interest, has been in service since June 30, 1977 and is not yet reflected in rate base (see discussion of the electric rate case below).

Electric Rate Case

On November 15, 1978, a recommended decision was issued by the Administrative Law Judge to whom the Pennsylvania Public Utility Commission (PUC) had assigned the Company's $116 million electric rate case, originally filed on August 5, 1977. He recommended that the Company be granted a final rate increase of $73.2 million per annum, including the $11.8 million interim increase which went into effect on March 3, 1978. The PUC heard an oral argument on December 8, 1978 and has indicated that a final decision will be issued by early January 1979. When issuing its final order, the PUC is not obligated to accept the Judge's recommendation and therefore there can be no assurance that any rate increase will ultimately be allowed. However, any increase granted above the interim increase would be retroactive to July 4, 1978.

DESCRIPTION OF COMMON STOCK

Shares of outstanding capital stock of the Company are (and when issued the additional common stock offered hereby will be) fully paid and non-assessable.

The following is a summary of certain provisions of the Company's Articles of Incorporation insofar as they affect the common stock. This summary is qualified in its entirety by reference to said Articles.

Dividend Rights

Dividends may be declared on the common stock out of funds legally available for dividends whenever full dividends on all series of the preferred stock at the time outstanding shall have been paid or declared and set apart for payment for all past quarter-yearly dividend periods.

The Company's Articles prohibit payment of any dividend on common stock if, after giving effect thereto, the capital of the Company represented by its common stock

together with its surplus would in the aggregate be less than the involuntary liquidating value of its then outstanding preferred stock. As of September 30, 1978, such capital together with surplus was more than twice the liquidating value of the outstanding preferred stock.

Liquidation Rights

In any liquidation of the Company, all assets remaining after payment in full of creditors and holders of all series of the preferred stock would be divided among the holders of the common stock according to their respective shares.

Voting Rights

Holders of common stock are entitled to one vote for each share held by them at all meetings of the shareholders. In each election of directors, holders of common stock are entitled to cumulative voting rights. Normally, holders of preferred stock have no voting rights, but with respect to certain matters the consent of the holders of a majority or other specified proportion of the outstanding shares of preferred stock is required. In case of default in payment of dividends on the preferred stock in an amount equivalent to four full quarterly dividends, the holders of preferred stock would be entitled to elect a majority of the Board of Directors until all dividends in default were paid or declared and set apart for payment.

Miscellaneous

Neither the common stock nor any other class of securities of the Company has any preemptive or conversion rights.

The Company may not purchase or otherwise acquire for value shares of its common stock whenever there is any arrearage of dividends on its preferred stock.

DIVIDENDS AND PRICE RANGE

The Company, or its principal predecessor, has paid dividends on its common stock in each year since 1902. The Company's practice has been to pay dividends quarterly in March, June, September and December. Dividends of $.45 per share for the first three quarters of 1978 were paid on March 31, June 30, and September 29, respectively. On October 23, 1978 the Company's Board of Directors declared a fourth quarter dividend of $.45 per share payable December 22, 1978 to shareholders of record November 15, 1978. Future dividends on common stock will depend upon earnings, the financial condition of the Company and other factors, including the availability of cash.

At present, the Company estimates that 10% to 40% of the dividend on the Company's common stock will constitute a non-taxable return of capital for Federal income tax

purposes for 1978. The Federal income tax cost basis of the shares on which a dividend is paid must be reduced by an amount equal to the non-taxable portion of the dividend.

The price range of the Company's common stock on the New York Stock Exchange through January 23, 1976 and on the composite tape thereafter, as published in *The Wall Street Journal,* is shown in the following table for the periods indicated:

	Quarters in 1976				Quarters in 1977				Quarters in 1978			
	1st	2nd	3rd	4th	1st	2nd	3rd	4th	1st	2nd	3rd	4th through December 8
High ...	17⅛	16¾	17¾	18	18⅝	20⅜	21¼	20¼	19⅜	19	18⅞	17¾
Low	14⅞	15	15⅝	15⅝	17⅛	18½	18⅝	19⅛	18⅜	16⅞	17	16⅛

The last reported sale on the New York Stock Exchange on December 8, 1978 was $16¼.

The book value of the Company's common stock at September 30, 1978 was $19.21 per share.

INFORMATION INCORPORATED BY REFERENCE

The following documents filed with the Securities and Exchange Commission are incorporated herein by reference:

(a) The Company's prospectus dated June 13, 1978, filed pursuant to Rule 424(b) under the Securities Act of 1933 (Form S-8 Registration Statement No. 2-58622), which contains certified consolidated financial statements of the Company for the year ended December 31, 1977.

(b) Quarterly Report of the Company on Form 10-Q for the quarters ended March 31, 1978, June 30, 1978 and September 30, 1978, each filed with the Commission pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

(c) The Company's definitive proxy statement filed pursuant to Section 14 of the Securities Exchange Act of 1934 in connection with the annual meeting of shareholders held on April 5, 1978.

Each document filed subsequent to the date of this Prospectus and prior to the termination of this offering pursuant to Sections 13, 14 or 15(d) of the Securities Exchange Act of 1934 and each prospectus filed by the Company during such period pursuant to Rule 424(b) under the Securities Act of 1933 are hereby incorporated by reference in this Prospectus and shall be a part hereof from the date of filing of such document or prospectus.

STATEMENT OF AVAILABLE INFORMATION

The Company is subject to the informational requirements of the Securities Exchange Act of 1934 and, in accordance therewith, files reports and other information with the Securities and Exchange Commission. Information as of particular dates concerning directors and officers, their remuneration, the principal holders of securities of the Company and any material interest of such persons in transactions with the Company is disclosed in proxy statements distributed to shareholders of the Company and filed with the Commission. Such reports, proxy statements and other information can be inspected and copies obtained at the Commission's Office of Public Reference at 1100 L Street, N.W., Washington, D. C. 20005, and at the SEC's regional offices at 219 South Dearborn Street, Chicago, Illinois 60604; 26 Federal Plaza, New York, New York 10007; and 10960 Wilshire Boulevard, Los Angeles, California 90024, and copies of such material can be obtained from the Public Reference Section of the SEC at Washington, D.C. 20549 at prescribed rates. Securities of the Company are listed on the New York and Philadelphia Stock Exchanges, where reports, proxy material and other information concerning the Company may be inspected.

The Company will furnish without charge to each person to whom this Prospectus is delivered, upon his written request, a copy of any or all of the documents described above under "Information Incorporated by Reference," other than exhibits to such documents. Written requests for such copies should be directed to: Philadelphia Electric Company, Financial Division S21-1, P.O. Box 8699, Philadelphia, Pa. 19101.

EXPERTS

The consolidated financial statements for the year ended December 31, 1977 contained in the Company's prospectus dated June 13, 1978 referred to under the heading "Information Incorporated by Reference" in this Prospectus have been examined by Coopers & Lybrand, independent certified public accountants, to the extent indicated in their report, and have been incorporated herein by reference in reliance upon their report, also incorporated herein by reference, which report is given upon the authority of such firm as experts in accounting and auditing.

LEGAL OPINIONS

Edward G. Bauer, Jr., Esq., Vice President and General Counsel of the Company, is passing upon the legality of the Shares for the Company. Drinker Biddle & Reath have prepared an opinion for the Company with respect to the legality of the sale of the Shares under the securities laws of the various states.

As of September 30, 1978, Edward G. Bauer, Jr., Esq., owned 1,570 shares of the Company's common stock.